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THE PROMISE AT HAND: PROSPECTS FOR FOUNDATION LEADERSHIP IN THE 1990s

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A 30-page monograph with an introduction by Steven A. Schroeder, MD, President of The Robert Wood Johnson Foundation. Written on the occasion of the Foundation's 20th anniversary, "The Promise At Hand" is an outgrowth of Keenan's three-part seminar on the role and potential of foundations for the RWJF staff. It contains an overview of the history and role of foundations in American society. Other topics addressed: the uncertain status of foundations as social institutions, the regulatory history of foundations, and a call for foundations to see themselves as a public trust. Also: the record of foundations in health philanthropy and the special characteristics of foundations.

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A. INTRODUCTION - THE VOICE OF EXPERIENCE

"Knowledge is the distilled essence of our intuitions, corroborated by experience" - Elbert Hubbard

Philanthropy is a craft, like woodworking or blacksmithing. It can't aspire to the status of art because its value lies in its direct and immediate utility. It can't claim the stature of profession because its practice does not depend upon mastering a single body of knowledge of the sort that permits formal accreditation and peer review.

It does not belittle philanthropy to say that it has more in common with the great mass of useful human endeavors than it has with those presumed (largely by their own practitioners) to be the most elevated. The state of the utilitarian trades is the state of a civilization: you don't summon a philosopher when your pipes are clogged.

It does, however, underscore the importance of the master to the advancement of the philanthropic craft, and call attention to the process by which one becomes an acknowledged master.

The master craftsman is one part knowledge of the strengths and limitations of his raw material, one part skill with the tools that shape it, one part intolerance for anything short of perfection in the final product, and three parts intuition as to how the perceived limits of the craft can be transcended. And one thing more: he or she must be a teacher who can develop the skills and inspire the instincts of those who will follow.

Two events led to these ruminations -- the observance of the Foundation's 20th anniversary as a national philanthropy and Terry Keenan's announcement that he was retiring from full-time service after having been at the foundation for all 20 of those years.

Immense changes loom in the organization, financing and delivery of medical care in this country. We know what is driving those changes. We believe that we can discern at least their rough outlines. But that is a bit like saying that a view of a hurricane from a weather satellite in space prepares you to address the reality of the storm when it is upon you. Maintaining a long perspective while being battered by the winds of change will take all the knowledge, imagination and nerve we can muster. And the winds are rising as some of the wisest and best, like Terry Keenan,

are departing. We can ill afford to lose that wisdom, those time-tested instincts.

Fortunately, that legacy won't be lost. Terry has set forth in a series of lectures to the Foundation staff, now edited into this booklet, the core of his perspective and knowledge. While no work of such brevity can encompass all that this extraordinary man has learned and accomplished in his two decades as a key member of the RWJF program staff, it does provide a distillation of the insights developed in that long and fruitful career. Those insights will benefit generations of those who will succeed him in the front-line trenches of philanthropy.

This is a brief work -- just 30 pages. But its brevity is one of its strengths. In this very condensed overview of the history and role of foundations, some uncomfortable dichotomies between our view of our role and the realities of the marketplace spring into uncommonly sharp focus. For instance, Terry points out that one of our major freedoms in the private philanthropic sphere is the freedom to fail -- the freedom to try a long-shot solution that would produce immense benefits if it succeeds. But he also notes that: The general doctrine driving staff behavior is the "doctrine of uniform success." A failed grant or a controversial one are too often perceived by the staff and by their peers not as our expected outcome of risk-taking, but rather as bad philanthropy. The hermetic and mandarin culture governing the norms of professional philanthropy is unforgiving of failure.

Further inhibiting our willingness to experiment boldly is a not unwarranted fear of political retribution from a Congress that does not like private foundations because: Its members, themselves forever chafing under (and not infrequently flayed by) the Constitution's demands for public accountability of public servants, is very uncomfortable with the foundation as a center of power and wealth that has not such accountability.

When you begin casting about for a way of reassuring those who might otherwise feel obliged to regulate us into impotence, you encounter in Terry's treatise the observation that: Foundations have no public constituency . . . no stockholders, voters, customers or interest groups to whom they must be responsive. . .no defined groups of people who they serve as clients, students or patients.

Therein lies the wisdom of Terry's insistence that foundations must be "regarded in American society as responsible stewards, of the funds within their care -- as, in short, authentic public trusts." That will not occur, he contends, until the foundations' "self-concept as public trusts becomes the overriding faith and the guiding force of their behavior." To prove it, he recommends five things:

1. A broadly based and independent board that includes women and minorities.
2. A written definition of purpose.
3. A published annual report.
4. Adequate professional staff.
5. Responsiveness to every applicant.

Clearly, what drives each of these recommendations is the perception that we must

not only be responsible stewards, we must be perceived to be responsible stewards.

That's the sort of treatise Terry Keenan has written, one which, read carefully and reflected upon, possesses a seminal integrity. It doesn't pretend to provide all the answers to the questions the future will propound about the nature and potential of private philanthropy, but it would seem, from my experience in the field, to possess the great majority of the elements that must be considered by anyone propounding those questions.

For that reason, I urge the reader not to dip into this work only in those areas of his or her immediate interest or concern, but to read it in its entirety, and to engage it in honest intellectual dialogue, recalling that the author intended for there to be questions and answers after the presentation.

If we attend carefully to the quiet voice that speaks from these pages, we will have Terry Keenan's wise and humane counsel to draw upon through whatever tests and tribulations the future may be preparing for us. I think there will be times when we will be very glad to have this small, parting masterstroke from this acknowledged master of our craft. I think we will be very glad, indeed.

Steven A. Schroeder, M.D.
September 10, 1992



B. PREFACE

Private philanthropic foundations are financially independent venture capital sources for the development of new ideas and concepts for social improvement. This focus on ideas, which sets them apart from the voluntary sector's other component -- the huge maze of non-profit service organizations -- is both their strength and their vulnerability.

The freedom that foundations enjoy from the restraints of public accountability is distrusted (and envied) by government, which tightly regulates their activities. That same independence works against the prospect of joint ventures with other foundations. And their lack of corporate or governmental imprimaturs means that foundations have no more authority for their role as social change agents than can be conferred by the wisdom they display in fulfilling that role.

Their contribution to the public weal is largely unrecognized by the great mass of Americans. It is overrated by their more reactionary critics and by those who know them only slightly, and is perceived as frustratingly less than it could be by the incorrigible idealists (which is to say most of us) in the ranks of those who serve them.

For all that, they are a precious resource for a nation in desperate need of ideas upon which to base solutions to a truly daunting array of social problems. That value can only increase in an era in which resources from the governmental and corporate sectors for trying new solutions to these problems are in decline, and likely to remain so.

Foundations, despite the regulatory hurdles placed in the path of their formation, are a growth industry. In 1990 there were some 32,000 private foundations. Among them, they controlled \$137 billion in assets and distributed nearly \$8 billion in grants annually. Even correcting for inflation, this represented a 93 percent growth in assets and a 60 percent increase in grants from 1980 levels. This reflects -- and outstrips -- a general rise in private giving for health and other human services during a decade characterized by tight containment in public outlays. From 1980 to 1990, private giving for charitable purposes rose by 38 percent in constant dollars to \$122.6 billion in 1990.

That pattern of growth is likely to continue for some time, in part because of a ten-year time lag typically experienced by foundations between their creation and the full funding of their corpus. One-third of the private foundations now in existence are less than ten years old.

The effective size of the foundation field is considerably less than the 32,000-foundation figure might suggest. The top 7,500 Foundations accounted for 96 percent of the assets and grants of all foundations, and the top 25 foundations controlled roughly \$44 billion, or one-third, of the assets and \$1.4 billion, or slightly less than one-fourth, of the grants.

While the assets and grantmaking of the foundations appear formidable, they amount to only 5.8 percent of all philanthropic giving. (Individual donations to churches, by comparison, account for 83.1 percent of private philanthropical donations.)

It is against this background, and in conjunction with the 20th anniversary of The Robert Wood Johnson Foundation's emergence as a national philanthropy, that I was asked to present a three-part seminar to the Foundation staff on the role and potential of foundations in helping our society identify, understand and resolve the profound challenges it faces. It is from those presentations that this paper is drawn.

The first subject addressed is the uncertain status of foundations as American social institutions, beginning with a summary of the hostile challenges from Congress and federal regulators which culminated in the Tax Reform Act of 1969, and the principal efforts of the foundation community to escape their more onerous burdens. I also explore the persistent structural problems, such as lack of a public constituency, that will continue to deny foundations a secure role in our national polity. This section concludes with a call for foundations to base their behavior on their belief in themselves as a public trust.

Section two, developed from the second seminar, reviews the foundation role as the largest single source of private investment capital for increasing our general understanding of the enormous American health enterprise, and for improving the organizational and financing structures for health and medical care. Highlights of private foundation health philanthropy are reviewed, including medical education in general and minority medical education in particular; public health education and practice; nursing education, including the introduction of nurse practitioners; and foundation-funded domains of knowledge, including health services research and the population sciences and technology.

This section also addresses some of the special characteristics of foundations which enable them to make a difference -- their freedom to test and develop new ideas and approaches, to take risks and to analyze probabilities and anticipate the future. It ends with a discussion of some key principles of practice required for good philanthropic performance.

The final section examines potential future roles for foundation philanthropy, exploring the escalating scale and severity of health and human services problems and the shrinking resources available to address them. These circumstances provide foundations an unprecedented opportunity to become full and visible partners with the governmental and business sectors in the American social contract. This opportunity for astute grantmaking to assist the 1.2 million voluntary

organizations of the nonprofit sector in making the most effective use of their talents and resources focuses upon helping, form long-term alliances and coalitions among local agencies to resolve key community problems and enlisting the public and business sectors to provide leadership and long-term funding for such projects.

It also addresses the impediments foundations face in coalition- building, including the isolation of the large national foundations from one another and their reluctance to assume a leadership role in joint planning and action. It concludes, however, that there is ample evidence to indicate that local and regional foundations, at least, would welcome participation of national foundations in building private, business and public sector coalitions in their communities.

In closing this preface, I wish to acknowledge the contributions of Paul Jellinek, who conceived the seminar series, Tom Gore, who, like Paul, felt that the series should appear in printed form as a part of RWJF's 20th Anniversary program, and Jim Keyser, who edited the text of my presentations and the discussions that followed.



C. THE ROCKY ROAD OF REGULATION

CONGRESSIONAL INQUIRIES

Congress does not like private philanthropic foundations, and, in all likelihood, never will. Its members, themselves forever chafing under (and not infrequently flayed by) the Constitution's demands for public accountability of public servants, is very uncomfortable with the foundation as a center of power and wealth which has no such accountability. The congressional hostility toward foundations has been manifest since the passage of federal income tax legislation in 1909 and 1917.

In 1913, for example, the request of the Rockefeller Foundation to become a federally chartered institution with public representatives on its board was rejected. In 1916, the Walsh Committee recommended draconian regulatory powers be imposed over the governance of foundations. Congress took no action on these extreme recommendations, but the hostility they embodied remained, resurfacing periodically in a variety of forms and forums, culminating in the Tax Reform Act of 1969:

COX COMMITTEE, 1952:

The House Select Committee to Investigate Tax-Exempt Foundations and Comparable Organizations, chaired by Rep. E.E. Cox of Georgia, investigates whether foundations promote "un-American activities."

REECE COMMITTEE, 1953:

Chaired by Rep. B. Carroll Reece of Tennessee, it pursues a broader mandate -- to determine whether foundations used their resources for non-exempt purposes, subversive activities, political activities, propaganda or influencing legislation. The committee's recommendations foreshadowed the Tax Reform Act of 1969 in proposing that foundations:

- Be treated as a separate class of charitable institutions
- Come under a mandatory payout of income, including capital gains
- Be prohibited from investing more than five to ten percent of their holdings in any one enterprise
- Be prohibited from all political activities.

PATMAN INVESTIGATIONS:

Rep. Wright Patman of Texas launched an assault from his podium as chairman of the Select Committee on Small Business that lasted throughout the 1960s. His investigations revealed a number of instances of self-dealing and other abuse that led him to recommend that:

- The life of foundations be limited to 25 years
- Foundations be prohibited from engaging in business, directly or indirectly An "arm's length" relationship be enforced between the donor and the foundation Foundations be limited to ownership of no more than three percent of any corporation, and be prohibited from voting their stock charitable deductions be denied to donors who control foundations until the money is actually used for charity
- Capital gains be treated as income, not capital Foundations be prohibited from influencing political campaigns through voter registration drives.

Patman's hounding drew the attention of Congress and the public. The House Ways and Means Committee and the Senate Finance Committee jointly requested a Treasury Department report.

TREASURY REPORT ON PRIVATE FOUNDATIONS, 1965:

The Treasury Department response to that joint congressional request listed six major problems with foundation philanthropy:

1. DELAY IN BENEFIT TO CHARITY.
Accumulation of income. Investments in low-yield assets, such as land.
2. OWNERSHIP OF BUSINESS.
This would enable a for-profit company to set up a foundation, then create a subsidiary of the corporation financed through tax- exempt dollars from the foundation.
3. FAMILY USE OF FOUNDATIONS TO CONTROL CORPORATE AND OTHER PROPERTY.
A donor, for example, could grant a foundation stock to a company, reap a large tax deduction and lower his or her equity in the business, thereby reducing estate taxes.
4. QUESTIONABLE INVESTMENTS.
Foundations were investing tax-exempt funds in speculative securities.
5. SELF-DEALING.
Donors used foundation assets for self-advantage, such as buying control of another company.
6. UNLIMITED DONOR CONTROL.
Donors and families could control a foundation in perpetuity. There was no

limit to their tenure on the board.

THE PETERSON COMMISSION

After the Treasury report was issued, several major foundations organized the Commission on Foundations and Private Philanthropy, chaired by Peter G. Peterson, President of Bell & Howell Corporation. It was not a very influential effort, its main message being that there was no hard evidence to support the view that financial abuse and self-dealing were widespread among foundations.

THE TAX REFORM ACT OF 1969 PROVISIONS OF THE ACT

The culmination of this long history of probing and proposals was the long list of provisions contained in the Tax reform Act of 1969:

1. Two categories of foundations are created:
 - NON-OPERATING FOUNDATIONS
The grantmaking foundations.
 - OPERATING FOUNDATIONS
 - Entities which expend substantially all their income directly for the active conduct of the activities constituting its exempt purpose (e.g., the Hughes Medical Research Institute)
 - Entities which meet one of three tests:
 - It devotes more than half its assets to its exempt purposes (e.g., many museums, historic sites and research institutes)
 - It normally expends not less than two-thirds of its "minimum investment return" (4 percent) to finance its operations (e.g., endowed institutions like Longwood Gardens)
 - Normally receives all of its support, other than gross investment income, from five or more exempt organizations and the general public, with not more than 25 percent coming from a single exempt organization, and not more than half from investment income (e.g., learned societies, research libraries, etc.).
2. Donors to private foundations are denied the favorable tax deductions afforded to traditional 501(c)(3) charities -- schools, churches, medical institutions, colleges and universities, and "publicly supported agencies meeting certain tests."
3. A 4 percent net excise tax on investment income of foundations is imposed.

4. A "disqualified person" category is established. It includes:
 - Family members of donors, including spouses, ancestors, lineal descendants, spouses of lineal descendants
 - Substantial contributors, defined as those making donations of whichever is the greater of 5,000 or two percent of the foundation's income in any one year
 - A foundation manager (officer, director or trustee).

Disqualified persons are forbidden to:

- Sell, exchange or lease property for the foundation
 - Receive loans or credits
 - Receive compensation unless "necessary and reasonable."
5. A minimum payout stipulation requires that foundations distribute all net investment income within one taxable year, or a minimum of 6 percent of endowment, whichever is greater.
 6. Excess business holdings are forbidden. Foundations may hold no more than 20 percent of voting stock in a corporation.
 7. High-risk investments are forbidden. A penalty on managers of 5 percent of the amount involved is provided.
 8. Grants to other private foundations or to organizations not classified as public charities are denied tax exemption. One practical effect of this provision is to put foundations at legal risk if they make grants to organizations not classified as traditional public charities. In general, grants may be made to Section 501(c)(3) charities not classified as private foundations under Section 509(a). The act defines those entities as:
 - 501(c)(3): entities "organized and operated exclusively for religious, charitable, scientific, literary and educational purposes."
 - 509(a)(1): organizations such as educational institutions, hospitals, churches, public instrumentalities and publicly supported and operated institutions.
 - 509(a)(2): organizations which receive more than one-third of their income from public sources and less than one-third from investment income.
 9. Lobbying by foundations is prohibited, except for lobbying in their own defense. The prohibition includes electioneering and grassroots campaigning.
 10. Grants to individuals are forbidden, except:
 - scholarships and fellowships for study at an institution
 - prizes and awards recognizing achievement
 - grants for a specific purpose, such as a report to improve the skills and talents of the grantee.
 11. Voter registration grants are restricted to organizations conducting this

activity in at least five states. Voter registration projects may not be limited to a single election.

12. In order to terminate its status as a private foundation, an entity must:
 - become a public charity (i.e., an operating entity)
 - donate all its assets to a public charity pay a terminator tax equal to the aggregate tax benefits it had ever received, plus interest.
13. Foundations are required to file an annual information return.

EFFECTS OF THE ACT

The effect of the act was clearly chilling:

1. It made many foundations timid about supporting any activity that could be construed as influencing legislation.
2. It halted the launching of new foundations. Income tax advantages were less than giving to a public charity. The regulation and its penalties were both daunting. And families would have to give up a major share of voting power in a family company.
3. Falling yields on investments in the 1970s made the 6 percent payout onerous. Foundations had to spend out of capital while inflation was eroding the value of their assets.

RESPONSES TO THE ACT

Whatever its shortcomings, the tax reform act had one salutary effect -- it stimulated foundations to work collectively to repeal some of the act's more procrustean provisions and to improve public understanding of their activities and of their role in American society. Two committees were formed, one in 1970, the other three years later, to propose responses to the draconian elements of the Tax Reform Act:

GARDENER COMMITTEE, 1970:

Under the leadership of John Gardner, former president of the Carnegie Corporation, the Committee on the Foundation Field was formed to make recommendations on improving public understanding. Its major recommendation was that the two organizations then serving the field -- the Council on Foundations and the Foundation Center -- should be consolidated into one broad membership organization, to be called the American Council of Foundations.

This did not happen. Instead, the Center and the Council continue to operate separately, each with an expanded staff and funds, but each with a different emphasis. They have since been joined by a third national organization, The Independent Sector, which fulfills still another role for the foundation field.

COMMISSION ON PRIVATE PHILANTHROPY AND PUBLIC NEEDS, 1973:

Chaired by John H. Filer, the committee worked two years on proposed changes in the Tax Reform Act. Its findings were contained in a report entitled "Giving in America: Toward a Stronger Voluntary Sector." The commission recommended:

- repeal of the excise tax on investments
- a flat payout of 5 percent. Congress began relenting on those provisions of the Tax Reform Act, beginning with the Revenue Act of 1976. By the time it passed the Economic Recovery Act of 1981, it had reduced the payout rate to 5 percent and cut the excise tax to 2 percent.

THE FOUNDATION CENTER

The Foundation Center, headquartered in New York City, is the nation's principal center for gathering, organizing and disseminating information on foundations. Its publications include:

THE FOUNDATION DIRECTORY:

Concise profiles of the 7,500 U.S. foundations with assets of at least \$1 million or with annual grants of \$100,000 or more.

THE NATIONAL DATA BOOK OF FOUNDATIONS:

Brief information on the 32,000 active U.S. foundations.

SOURCE BOOK PROFILES:

Detailed analyses of the nation's 1,000 largest foundations. Similar information is provided in the NATIONAL DIRECTORY OF CORPORATE GIVING..

The Center also publishes profiles of funding patterns in different fields -- Arts and Culture; Children, Youth and Family; Aging; Health; Substance Abuse; Religion; Elementary and Secondary Education.

It also maintains and publishes a Grants Index by subject, which currently covers 46,000 grants of \$5,000 or more. The index forms the basis of COMSEARCH, which offers computer printouts on foundation grants in some 30 fields.

The Center maintains comprehensive libraries in New York, Washington, D.C., Cleveland and San Francisco, and basic collections of its references in some 180 cooperating libraries.

The New York and Washington collections contain microfiche copies of all IRS 990-PF returns. The Cleveland and San Francisco libraries contain regional returns, and many cooperating libraries have the returns from their state.

The Center's "User Friendly Guide" is published to help researchers make the best use of its directories and other references.

THE COUNCIL ON FOUNDATIONS

This Washington, D.C.-based membership organization provides a number of services:

1. The Council monitors legislation affecting the foundation field.
2. It represents the field before Congress, the IRS, other federal agencies and the general public.
3. It defines and maintains, in a somewhat rudimentary way, standards of good practice and performance.
4. It publishes a quarterly journal, FOUNDATION NEWS and holds an annual meeting for its members.

THE INDEPENDENT SECTOR

A third organization, The Independent Sector, is an outgrowth of the National Council on Philanthropy. Its members include corporate grantmakers and all manner of nonprofit agencies as well as foundations. Based in Washington, D.C., it has emerged as a very strong voice for the role of the voluntary sector in American life.

None of the three nationwide organizations representing the foundation field is very strong on research. Indeed, research on philanthropy is not a mature scholarly field. With the notable exception of the Russell Sage Foundation, philanthropic support for research in the philanthropic field has been very limited.

This is beginning to change somewhat with the emergence of university-based research centers on philanthropy and the voluntary sector in general. One such center is located at Indiana University under Robert Payton, another at Yale University under Bradford Gray.

CONCLUSIONS

From this review of the dimensions of foundation giving and the emergence of the current legal environment governing foundation operations, the following conclusions appear warranted:

1. The foundation field's current growth curve is likely to continue well into the present decade, as the very substantial number of foundations established in the 1980s begin to receive the major gifts and bequests of their donors.
2. Current controls are likely to remain -- notably the 2 percent excise tax, the 5 percent payout and the restrictions on types of recipients.
3. Public trust in and acceptance of foundations is likely to remain ambiguous and uncertain, for several reasons:
 - a. Foundations have no public constituency.

Unlike business or government, they have no stockholders, voters customers or other interest groups to whom they must be responsive. Unlike hospitals, colleges and universities, and social service agencies, foundations have no defined groups of people whom they serve as clients, students or patients.

b. Foundations are associated in the public mind with the elitism and privilege it ascribes to great wealth.

There is a suspicion that the wealthy give not out of a spirit of altruism, but out of a desire for social influence and control -- a sentiment captured by Teresa Odendahl in her book, "Charity Begins at Home: Generosity and Self-Interest Among the Philanthropic Elite."

c. Foundations have never been able to shed their image of being a "tax dodge" for the very rich.

There is no denying that foundations provide important tax advantages to their founders, in estate taxes as well as income taxes. It does not matter to the public, apparently, that this is equally true of all charitable giving.

What measures, then, can foundation take to become regarded in American society as responsible stewards of the funds within their care -- as, in short, authentic public trusts?

In my view, foundations' credibility will never achieve this level until their self-concept as public trusts becomes the overriding article of their faith and the guiding force of their behavior. At a minimum, I would argue, this demands:

1. A broadly representative board that includes women and minorities, and that is not controlled by the founding family or company.
2. A written definition of purpose, committing the institution to leadership in its chosen area of concentration.
3. A published annual report.
4. Adequate professional staff, full-time or part-time, depending upon the size of the foundation.
5. Responsiveness to every applicant.



D. THE FOUNDATION RECORD IN HEALTH PHILANTHROPY

Any survey of foundation accomplishments in general would be far too sketchy to be of much use to us in assessing how these unique institutions work and what they are capable of accomplishing. So let us focus on just one area -- one very large area, admittedly -- in which foundations have been a very significant force.

The gargantuan size of the national health bill -- three-quarters of a trillion dollars a year and growing -- makes the estimated \$1.3 billion in foundation health spending appear almost marginal.

However, when you look at the ratios between consumption spending and investment spending on the national scale, the accounting changes. Roughly 80 percent of national spending, public and private, goes to current consumption. Only 20 percent is devoted to investment spending, such as efforts to develop new knowledge and capacity.

Foundations, on the other hand, devote about 90 percent of their grants to investment spending. They are the largest single source of private developmental capital in this country for improving our knowledge base and the organizational and financing structures of health and medical care.

They have performed this function since the turn of the century, when organized philanthropy first materialized as a force for the systematic application of private wealth for the public good. Here are some of the areas in which their contribution has been significant:

HEALTH PROFESSIONS EDUCATION.

The concept of medicine as a learned profession deeply rooted in university scholarship was established in the United States by the founding of the Johns Hopkins University and, in 1901, by the establishment of the Rockefeller Institute for Medical Research, both of which were fostered by Rockefeller philanthropies. These institutions and a few others became the standards by which Abraham Flexner measured medical education in his famous report of 1910 (*MEDICAL EDUCATION IN THE UNITED STATES AND CANADA*). Among other things, this report -- funded by the Carnegie Foundation for the Advancement of Teaching -- recommended that medical schools should function as university

institutions, staffed by full-time clinical faculty, wholly devoted to research, teaching, and patient care.

The General Education Board, another Rockefeller philanthropy, supported the adoption of these precepts by investing more than \$100 million -- a sum equivalent to \$1.3 billion in current dollars.

In time the innovations of the Flexnerian model became more or less universal doctrine, displacing archaic practices which, for example, had denied doctors in training access to patients until their third year of medical school. Starting at Case Western Reserve in 1953, medical faculties began to experiment with more flexible and relevant curricula, such as the New Pathways Program at Harvard. The pace of reform continued rapidly for more than a decade, largely supported by the Commonwealth Fund.

However, the Flexnerian reforms of medical education were insufficient to deal with the impact on medical practice of the extraordinary growth, in size and complexity, of the body of medical science and technology. Among these effects was the rise in specialty and subspecialty practice, and the decline in physicians providing general and primary care. In the 1960s and 1970s when this shift occurred, universal health insurance seemed imminent, making the relative scarcity of generalist physicians a potential national crisis.

There was a rapid and significant philanthropic response to the problem. The Robert Wood Johnson Foundation and the Henry J. Kaiser Family Foundation, among others, not only expanded the capacity of academic medicine to educate generalist physicians, but built a research base under this effort focused on primary and ambulatory care. The Robert Wood Johnson Foundation's contribution includes the preparation of 102 new academic investigators in family practice and 111 in general pediatrics.

The shortage of generalist physicians brought to prominence the plight of the nation's minorities, whose access to health and medical services has never approached their needs. Philanthropy has sought to remedy this situation for decades. Black medical schools, such as Meharry Medical College, continue to command their attention. The National Medical Fellowships -- with foundation support -- has been an important source of scholarship and loan funding for thousands of minority medical students. The efforts of mainstream medical schools to increase minority enrollments have also received consistent foundation assistance. The work of the Josiah H. Macy, Jr. Foundation in this area has been particularly noteworthy.

In recent years, The Robert Wood Johnson Foundation has been conducting a program to equip young minority physicians for leadership careers as investigators in the medical sciences -- positions in which minority participation has been all too rare. This fellowship program will help assure that minority students will have the benefit of outstanding minority faculty as role models.

Despite efforts by foundations to expand access to basic medical care throughout

our society, including minority communities, the imperative to infuse the flow of new scientific knowledge into the education of physicians has not only continued to foster the proliferation of subspecialty practice, it has so compounded the complexity of medical knowledge that faculties no longer understand what constitutes the essential base of learning for clinical practice. These developments have given rise to a quiet but profound concern among many in academic medicine.

More than a dozen schools are planning to reform their teaching programs in major ways. A new Commission on Medical Education, established by The Robert Wood Johnson Foundation, is serving as a forum to foster these efforts. The Pew Charitable Trusts have also established a Health Professions Commission to undertake a broad inquiry into the challenges confronting learning and practice in these fields in the coming decades.

PUBLIC HEALTH.

Professional education for public health had no formal base in this country until 1913, when the Rockefeller Foundation established the School of Hygiene and Public Health at Johns Hopkins under Dr. William Welch. In the ensuing years, Rockefeller provided the major funding for 22 additional university schools in 17 countries.

Formal public agencies for the application of public health science have existed only sporadically in America throughout most of its history. Model departments at the county and state levels, adequately staffed by trained professionals, began to emerge in the 1920s with support from the Commonwealth Fund.

More recently, the W.K. Kellogg Foundation has announced a new initiative to build formal partnerships among schools of public health, health departments and community health service agencies.

NURSING EDUCATION.

The Rockefeller Foundation helped advance the concept of nursing as a university-based discipline through its support for the Committee for the Study of Nursing. The Committee's report, prepared by Josephine Goldmark, was issued in 1923. It recommended the establishment of university schools to prepare nurse leaders. Aside from the Rockefeller Foundation-funded creation of the Yale School of Nursing, little progress was made in developing nursing as a learned profession until after World War II, when the Russell Sage Foundation commissioned another study of nursing education.

That study, headed by Esther Lucille Brown, again recommended that the preparation of nurses be based in higher education. This has been achieved less by the university, however, than by the rise of the community college -- a movement fostered particularly by the W.K. Kellogg Foundation. Today, community colleges conduct 62 percent of the nation's nursing schools, and

colleges and universities 31 percent. (The remainder are hospital-based.)

THE NEW HEALTH PROFESSIONS.

A component of university-based education for primary care practice that is often overlooked is the introduction of nurse practitioners and physician assistants -- the so-called "new health professionals" who have demonstrated that doctors can safely delegate much routine care to non-physician colleagues. Physician assistants were first trained at Duke University under a grant from the Macy Foundation, and the first nurse practitioners at the University of Colorado under a grant from the Commonwealth Fund. This innovation in health manpower was sustained entirely by private foundations for nearly six years before it was able to attract public dollars.

Finally, the W.K. Kellogg Foundation is seeking to unify the education and practice of the full spectrum of health professions around the concept of comprehensive, community-oriented primary care.

HEALTH SCIENCES RESEARCH.

Signal contributions to advances in understanding the course and cure of disease marked the "golden age" of American philanthropy. And support for research and teaching in the biomedical sciences continues today as a feature of many foundations -- for example, the Lucille P. Markey Charitable Trust.

Indeed, the nation's largest private foundation -- the Howard Hughes Medical Institute -- devotes virtually all of its \$5.6 billion endowment to the operation of university-based laboratories working on the frontiers of genetics and other aspects of cellular and molecular biology. Still, with federal expenditures for the National Institutes of Health alone now exceeding \$7 billion annually, philanthropic foundations have only a limited role to play in the financing of basic sciences research. It is well worth recalling, however, that foundations were crucial agents in the application of science to the control or eradication of the massive epidemics that racked this country and the world only a few generations ago.

The Rockefeller Sanitary Commission and International Health Board helped significantly reduce the scourges of hookworm, malaria and yellow fever. The Rockefeller Foundation maintained laboratories in the United States and in many parts of Latin America and Africa, and it became the world center for research on tropical diseases -- yaws, schistosomiasis, and many others.

In 1935 at the Foundation's New York laboratory, Dr. Max Theiler discovered a vaccine for yellow fever. The laboratory would serve as a worldwide wartime supplier between 1941 and 1945.

Major new fields of knowledge in the biological and related health sciences received their earliest recognition and nurture from the country's private

foundations. Pioneering investigators in genetics, including Thomas Hunt Morgan, were aided by the Guggenheim Foundation and the Carnegie Institution of Washington. The discovery of the DNA molecule was the work of three scientists at the Rockefeller University -- Avery, MacLeod and McCarty. Funds from the National Foundation for Infantile Paralysis enabled James Watson to work with Francis Crick in defining the molecular configuration of DNA.

Psychiatry, psychiatric social work, clinical psychology, and early childhood development and learning are among fields that have achieved acceptance and maturity with private foundation funding, especially from the Commonwealth Fund and the Carnegie Corporation.

HEALTH SERVICES RESEARCH.

This important domain of inquiry into health and health policy -- how health care is organized, distributed and financed -- is the product of years of assistance by philanthropy. Its work includes developing and applying techniques of gathering, analyzing and assessing health data, including the cost-benefit ratios of different modes of treatment and the outcomes of health care. The Milbank Memorial Fund has worked consistently in this area for many decades through its support for such disciplines as epidemiology and biostatistics.

Under the Clinical Scholars Program, initiated by the Commonwealth Fund and the Carnegie Corporation, 573 clinical faculty members of medical schools have been qualified as investigators in health services research. The program has been continued by The Robert Wood Johnson Foundation since 1972.

POPULATION SCIENCE

is another discipline developed largely at the initiative of philanthropy. From basic research in reproductive physiology to contraceptive technology and demography, the full spectrum of population sciences has been fashioned largely by philanthropy -- notably the Ford and Rockefeller foundations. Given the political climate surrounding family planning, the independence of foundations to pursue basic and clinical research in this area remains particularly important.

NUTRITION.

Field laboratories built and operated by Ford and Rockefeller in Mexico and the Philippines have had remarkable success in introducing high-yield, disease-resistant strains of corn, wheat and rice. The work of these foundations on plant genetics and plant pathology of the world's basic food staples is emblematic of what can be accomplished by national philanthropies.

APPLICATION OF THE PHYSICAL SCIENCES TO LIVING SYSTEMS.

Modern medical technology is rooted in the application of the physical sciences to living systems and processes. High energy radiation owes much to Ernest O. Lawrence, who built the first powerful cyclotron under funding from the Research Corporation, a private foundation based in New York.

Space medicine would not have been possible without the availability of rockets able to overcome the earth's gravitational pull. The work of the father of American rocketry, Robert Goddard, was supported by the Guggenheim Foundation as early as 1915.

INTERDISCIPLINARY RESEARCH

has been a useful means of pursuing answers to problems in human health that relate to the individual's responses to social, economic and other environmental factors. Foundation funds have encouraged studies of this kind through such organizations as the Yale Institute for Human Relations and the Laboratory of Social Research at Harvard. Foundations also have established independent research centers, some of which have achieved considerable prominence and influence. Among these are the Brookings Institution, the Social Science Research Council, the National Bureau of Economic Research, the Population Research Council, the Center for Advanced Study in the Behavioral Sciences, the National Research Council, and the Institute of Medicine of the National Academy of Sciences.

Through interdisciplinary networks of individual investigators, the MacArthur Foundation has done much to advance understanding of mental illness and of the developmental challenges confronting people at all stages of the life cycle.

HEALTH SERVICES.

In the domain of patient care, academic health sciences centers, particularly university teaching hospitals, constitute the very citadel of tertiary care -- where state-of-the-art subspecialty practice is both provided and taught, and where experimental medicine is transformed into the clinical technologies of the future.

Foundations have a long history of support for the work of university teaching hospitals, often directed at specific diseases or conditions. The Kresge Foundation has been especially responsive to their needs for modern facilities.

HEALTH SERVICES MANAGEMENT

is an emerging area of strength for universities that provide research and training in such fields as computer science and information technology, the collection, analysis, and communication of data on such matters as service utilization and costs. The Robert Wood Johnson Clinical Scholars Program has been a major force in training physicians to function at the frontiers of health services research.

The management of health services institutions, agencies and systems has been a

long-standing foundation interest. In the mid 1940s the W.K. Kellogg Foundation established most of the early graduate programs in this area and was also instrumental in founding the Association of University Programs in Health Administration. Foundations have also exerted considerable leadership in the testing and development of new health care arrangements, often from a university base. The Kaiser Family Foundation has been at the forefront of prepaid group practice throughout most of its history and was involved, for example, in the establishment of the Georgetown University Plan. The largest such project -- the Harvard Community Health Plan -- was initiated with the help of the Ford Foundation and the Commonwealth Fund.

The local voluntary hospital, so central to American communities today, was a rarity only fifty years ago. During the 1920s and '30s the Commonwealth Fund helped to build some 15 local hospitals that incorporated such features as community boards, open staffs and full-time business managers. These features became nationwide models when they were incorporated into the Hill-Burton legislation in 1948. The Commonwealth Fund established the first child guidance centers in the United States. These institutions have become widely adopted as part of the American social services system.

In the health policy arena, foundations have provided important startup funding as well as project support to a number of university centers. Many play important state and regional roles, and a few -- like the University of California, San Francisco -- have provided significant national leadership. The Institute of Medicine (IOM) has had foundation support for many years, including large core support grants from the W.K. Kellogg Foundation and The Robert Wood Johnson Foundation.

At a time when most federal policy initiatives in health appear paralyzed by the national deficit, the university centers funded by foundations, along with the IOM, could become even more important.

SPECIAL QUALITIES OF PRIVATE FOUNDATIONS

Foundation achievements in health philanthropy are not the product of money alone. They are an expression of a set of qualities inherent in foundations as an institutional form -- qualities that translate into special capacities to serve the public welfare:

- **INDEPENDENCE IN SELECTING THEIR GOALS.** The lack of natural constituencies to secure their place in American society is not without its advantages. It provides them with an extraordinary measure of independence in choosing their goals.
- **FREEDOM TO INVEST IN INNOVATION.** There are few restrictions, other than the dictates of good judgment, to investment in promising new approaches to problems -- even those so innovative that the risk can't be assessed in advance with any real assurance. An example would be The Robert Wood Johnson Foundation's funding for the National Center for the

Prevention of Child Abuse and Neglect.

- **FREEDOM TO FAIL.** This, perhaps, is the greatest of all freedoms in seeking to devise new approaches to social problems. Business and government are using other people's money in their solution-seeking endeavors. That has a very chilling effect on risk-taking. Foundations are self-financing. They can afford to be more open to high-risk, high-promise solutions (e.g., The Robert Wood Johnson Foundation's Community Programs for Affordable Health Care).
- **TIME TO ANTICIPATE THE FUTURE.** The day-to-day demands of current problems are at a minimum in the foundation environment. Foundations have the luxury of time to analyze trends and assess probabilities. They can intervene in evolving problems at very early stages, assuring their intervention maximum leverage.
- **UNEQUALED FLEXIBILITY AND SPEED.** Probably no other entity has the ability of a foundation to initiate action or change tactics in addressing social problems in a timely manner. Our Health Care for the Homeless Program is an example of one such response.
- **THE FREEDOM TO PERSIST.** Since they answer to no outside constituency, foundations have the luxury of staying the course. They are not subject to the whims of political change, popular taste or intellectual fashion. They can "hang in" on a tough and intractable issue -- keeping it on the public agenda until there is sufficient professional or political will to deal with it. Our longstanding work in access to care a good instance of such perseverance.
- **THE POWER TO PIONEER NEW FIELDS OF KNOWLEDGE.** They can train the scholars and professionals required to advance work on these issues. Our Clinical Scholars Program and its contributions to health services research is an illustration.
- **THE FREEDOM TO DEVELOP NEW INSTITUTIONS OR INSTITUTIONAL SYSTEMS FOR CONFRONTING MAJOR NEEDS.** Our EMS and Perinatal Care Programs are two examples of this capacity.
- **THE ABILITY TO CONVENE.** Foundations have the authority, in their role as neutral, independent entities, to serve as conveners around issues. The RWJF Commission on Medical Education illustrates this point.

Many would hold that these attributes apply principally to the larger national foundations. They have the resources and national perspective to derive the greatest effect from these capabilities. But I am not convinced that only the national foundations have that power and leverage.

Foundations with relatively modest assets -- \$5 million to \$10 million -- can employ combinations of these special institutional characteristics to great advantage, and they can do so on a local, regional or national basis. Local foundations in Kansas City, for example, were among the first to demonstrate the school-based adolescent health center concept. While local foundations generally

do not invest in evaluations of the magnitude and scale of their larger counterparts, they have the ability to do so when such studies are decisively important to them. The evaluation of the "Beethoven Project" by the Harris Foundation in Chicago is an example. This is a demonstration project of comprehensive services to infants and children from birth through age 5. It has great importance for the "school readiness" of the children involved, and it has received national attention.

PRINCIPLES OF PRACTICE

What lessons, then, are we to derive from foundation philanthropy as a field of professional service, from their productive history and institutional advantages as facilitators of progress?

This question can properly be addressed from two perspectives -- institutional practice and practice on the part of the individual program officer.

INSTITUTIONAL PRACTICE.

We have already reviewed many of the key elements of institutional practice at the close of the first section:

- A conscious moral and ethical belief in the institution as a public trust
- A broadly representative board, including women and minorities
- A written definition of the foundation's mission, goals and program interests
- A published annual report
- Professional staffing, part-time or full-time, depending on the foundation's size
- Responsiveness to every applicant.

To this list I should add that the Board needs to establish clear rules about conflicts of interest on the part of the individual trustees and/or staff members. No one associated with the foundation should be involved in a proposal from an institution in which he or she is active.

INDIVIDUAL PRACTICE.

In addition to the conflict-of-interest issue noted above, staff members must possess the sensitivity to recognize that proposals usually embody an idea, activity or cause that is precious to the applicant. Whether the proposal contains anything new or promising is immaterial in the transaction between the applicant and the staff member. The applicant's proposal warrants a respectful review, and the "turn down" letter must at least show knowledge of the contents of the proposal, convey regrets that it could not be funded by the foundation, and express the hope that the rejection will not discourage the applicant from pursuing

other potential funding sources. I would suggest that the letter include a listing of the cooperating libraries of the Foundation Center, which house collections of the Center's directories of foundations.

Another individual issue is the extent to which the applicant's proposal should be manipulated by the staff member either to make it more fundable or more to the staff member's liking. The staff member's experience and/or reviews by outside consultants may indeed point to important ways in which the proposal can be strengthened. However, great care should be taken to avoid changing the intent of the proposal. Applicants will rarely say no to such suggestions and will accept the grant and then pursue their original intent anyway. So the two parties -- the staff member and the applicant -- end up with different sets of expectations. The proposal is at risk of failure from the outset -- and to the prospect of mutual blame and bitterness.

Assuming that the proposal is funded by the foundation's board, there are three further sins the program officer can commit:

1. **UNDERFUND THE PROPOSAL.** If resources aren't adequate to the task, the proposal should not be recommended for support. It does the grantee no favor to leave him or her stranded in mid-project.
2. **NEGLECT THE PROJECT.** Monitoring a project once it is launched requires a fine sense of proportion. If the project is given too little attention, avoidable difficulties go unaverted and the grant becomes a problem case, with attending unhappiness all around. That is somewhat less likely than the equally unhelpful alternative below.
3. **MICRO-MANAGE THE PROJECT.** The zealous over- management of fiscal or program aspect of grants is an unfortunate element of the RWJF's management style. On the fiscal side particularly, we drive our grantees to distraction without improving their performance in the least. The Commonwealth Fund over-manages the program side of their grants in much the same way. To avoid this, establish a clear, feasible outcome for the project at the outset, define a work program and budget to achieve that outcome, then back off. The grantees progress can be monitored through regular annual and fiscal reports.

These causes of problem grants -- program officer manipulation, underfunding, micro-management or neglect -- all reflect poor principles of practice and, at base, a poor grasp of professional ethics and responsibility. The essential element in avoiding them is proper communication.

Even with a solid start and regular monitoring, program officers cannot assume that the things will proceed smoothly. Every project will generate its problems -- some internal to the project and some external. Key project staff members will leave, for example, or public revenue sources vital to the project will be cut.

The program officer cannot solve many of these problems. That is up to the grantee. But, as a professional, the officer needs to know about them and to do

what he or she can to facilitate solutions that will help the project achieve its major purpose.

As a generalization, the desideratum for a project (excluding one with a predetermined end point, such as a field study and report) is that it will become sufficiently institutionalized so that it can continue independently of RWJF dollars.

Good philanthropic practice, however, involves much more than the attainment of financial self-sufficiency. What matters, in the end, is impact -- whether or not the project has made any difference to the problem it addresses. Here the program officer needs an astute sense of what is significant -- not only the quality of the ideas underlying the proposal but the quality of the people behind the ideas. An officer without the capacity to recognize these qualities is not likely to be creative.

The acquisition of such insight involves wide and continuous reading and study, regular dialogue with experts in the foundation's areas of interest, and the ability to assess realistically what philanthropic interventions can achieve. Creativity, in short, is a cultivated skill, attainable only through continuous effort.

Perhaps the most important ingredient in the creative practice of philanthropy is the ability to seize an opportunity for impact even when the proposed intervention carries a considerable element of risk. Although foundations, by their nature, are uniquely empowered to take risks, they are characteristically cautious, risk-averse institutions.

This paradox has less to do with their trustees than with their staffs. The general doctrine driving staff behavior is the "doctrine of uniform success." A failed grant or a controversial one is too often perceived by the staff and by their peers not as an expected outcome of risk-taking, but rather as bad philanthropy. The hermetic and mandarin culture governing the norms of professional philanthropy is unforgiving of failure. Any foundation that can change this will be a happier, better, and certainly more creative, institution.

A further issue affecting philanthropic practice is whether the institution will be "proactive" or "reactive." Most are reactive: goals are announced, but the actual content of the grant portfolio is really a formless collection of proposals that, for the most part, come unbidden through the door.

Given the special value of foundation dollars as private investment capital in the public welfare, passive philanthropy of this kind is simply not good enough. Particularly in today's complex, changing and problem-ridden world, the entire field of foundation philanthropy needs to be consciously proactive and constantly seeking out the best ideas, people and institutional systems to advance the foundations' declared goals and programs.

This can be achieved institutionally through the process of formal "calls for proposals" adopted by RWJF, but it is also a responsibility of the individual

program officer. Such ideas will generally come from a careful analysis of the literature in his or her program area, through input received during field trips, and other deliberate and conscious efforts to mine for the next valuable idea. Simply relying on inspiration rarely produces an important proposal.

In the period ahead, I believe it will become increasingly essential for foundation philanthropy to develop competence in forging partnerships in order to exert the greatest influence possible in meeting the challenges society is confronting.

Those partnerships will be of two kinds -- new structures and working relationships among human service organizations; and long-term partnerships among funding sources, public as well as private.

But before delving into that subject, let's look at the environment that will dictate this more collegial approach to philanthropy.



Library

E. FUTURE PERSPECTIVES FOR FOUNDATION PHILANTHROPY

In my judgment, the unique institutional attributes of foundations have been validated by the historical experience of these entities and are likely to continue as signal elements of their future potential. Similarly, I am persuaded that the principles of practice that derive from these attributes should serve as dependable guidelines for the operation of future grantmaking programs.

On the other hand, I believe that the actual content of our historical experience will serve us less well as a resource for charting our course for the decades ahead. The past is not prologue for the era we are entering. The lessons learned are not a scripture in which we can have much faith.

This is not simply a pessimistic assumption -- a way of saying, once more, that the pace of change has become so rapid and the problems so different that we cannot predict future events with any confidence, much less equip ourselves to confront them. In my judgment, the period ahead will not be that chaotic.

Forecasting and related contingency planning will still be possible. In fact, it will be essential if, as a society, we are to have any control over our destiny. However, the ability to anticipate the future will continue to remain a vaporous claim of astrologers and self-proclaimed seers unless much more work is done in advancing the science of probability assessment -- not only in the statistical and mathematical domain of economics, but in the more speculative area of public opinion and the related thrust of public consensus and public policy.

While our ability to exercise probabilistic thinking may be primitive, certain phenomena already loom large in our field of vision and do not require sophisticated forecasting. Significant among them are:

- The emergence of a permanent and divisive social class structure in American life -- a massive, alienated, dependent underclass; an increasingly insecure and troubled working class and middle class; and a growing self-absorbed and self-protective upper class. The social experience of each group is very different from the other. The relative scale of access to medical care is one example.
- The emergence of a large population of Americans surviving into their advanced years, placing immense demands upon our medical and human services systems -- demands for which we are not prepared.
- The tragic epidemic of HIV infection, which is the precursor of hundreds of

thousands of new AIDS victims who will require complex terminal care.

- The scourge of substance abuse and dependency, manifested not only in climbing crime rates but also in appalling damage to the physical and mental capacities of too many newborns, children, youth, and their parents.
- The frightening prevalence of domestic violence, yielding an incidence of child and spousal abuse unthinkable only a generation ago -- and posing problems to our medical care and social service systems we don't know how to address.

Added to these problems is the seemingly universal failure of our system of public education, which means that the nation will not have a workforce of the quality necessary to maintain a competitive position in the world economy.

These and other problems of similar magnitude (for example, untenable failures in our systems and arrangements for providing health services) are occurring at a time when our resources for dealing with them are diminishing.

In the decades following World War II, which were characterized by a rising GNP and major new public investments in social programs, it was relatively easy for foundations to carve out a role as social entrepreneurs -- venture capitalists for change. Certainly this was the experience of The Robert Wood Johnson Foundation. We could establish and test an innovative solution to a problem, then frequently see it replicated nationwide under federal legislation. Our program in Health Care for the Homeless is but one example.

In the future, opportunities of this kind may be the exception. It will be much harder to generate public interest in new initiatives, and much harder to mobilize the funds necessary for broad-scale replication.

For the near term, and probably for the long term as well, we are entering a phase not of creating and expanding new structures and programs, but a time of restraint, caution and -- in the face of rising public deficit -- also a time of austerity.

With the problems and needs confronting society less predictable than they were and with resources beginning to contract, what will be the future role of foundations?

The most positive answer is that these conditions provide philanthropic foundations with a fresh and unparalleled opportunity to become a full and visible partner in the American social contract.

The work of our society is conducted through three broad sectors of activity -- government, business and the voluntary or independent sector.

Foundations, manifestly, belong to the voluntary sector, though they seldom think of themselves in that context, and almost never do so in the full context of what that sector is and does in all its aspects. However, since that is the forum in which they participate in the American social contract, they need to acquire a better understanding than they have of its dimensions and values.

The voluntary sector is a vast national enterprise, encompassing, among other institutions:

- 350,000 houses of worship
- 30,000 church-sponsored elementary and secondary schools
- 60,000 nonprofit family and social service agencies
- 1,870 private colleges and universities
- 3,340 short-term general hospitals
- 3,050 voluntary nursing homes
- 2,500 museums
- 1,000 local arts councils.

Altogether, the voluntary sector comprises 1,243,000 nonprofit organizations. In 1986, these organizations employed 7.7 million workers -- more than all civilians employed by the federal government and the 50 states combined. Nonprofit institutions also enlist the time and talents of some 80 million volunteers annually, which is equivalent to another 416,000 full-time workers.

These figures tell us that the voluntary sector plays an extraordinarily large role in our national life -- and a growing one. For example, between 1972 and 1982, philanthropic nonprofit employment increased by 43 percent, compared with a 21 percent increase in the for-profit sector, and a 19 percent increase in government.

While the scale of the nonprofit sector is impressive, its real worth has to be measured by what it contributes to our common welfare. For example, the nonprofit status of some community hospitals is being called into question precisely because of their emphasis on enhancing revenues to the neglect of charitable service.

The pricing of services by nonprofit organizations at levels well below their value is what differentiates them from the for-profit sector and makes them accessible to millions of Americans in need.

Yet, it is exactly their requirement for large-scale charitable funding on an ongoing basis that creates enormous tension between nonprofit service organizations and private foundations -- both of which belong to the voluntary sector.

On the one hand, foundations are loath to be considered sources for meeting the operating budgets of the nation's huge maze of nonprofit organizations. Nonprofits, on the other hand, view foundations as sources of wealth and thus a primary answer to their funding needs.

Before they can exert their potential as social investment enterprises, foundations need to establish an explicit understanding with all other categories of institutions in the voluntary sector. The understanding is simply this: Foundations are not part of general charity but, rather, a special resource in the competition for funds -- that bidding for foundation dollars is not really about money but about ideas.

This message is beginning to be heard, and as this understanding gains currency, foundations are becoming poised as a set of institutions that could bring truly vital leadership to the voluntary sector. The time appears opportune for this to happen. The question is, have we the resources necessary for the task? Most of us in the foundation community have begun to fear that we do not. The particular factor that could fashion these circumstances into an opportunity for foundations is their freedom to help nonprofit organizations target their resources in strategic ways through coalitions and alliances acting in concert on specific problems.

It is true that much of the vitality of the voluntary sector rests in its thriving pluralism. On the other hand, this same pluralism results in considerable redundancy and dissipation of impact. It should be possible to foster common purpose among institutions with similar missions -- service to youth, for example -- without loss of individual identity.

To accomplish this goal, foundations will need to fund the creation of new structures and arrangements to enable nonprofits to undertake mutual assessments of the critical needs in their areas of activity, joint planning and joint programs. A prime example from our own work is the Interfaith Volunteer Caregivers Program, which has brought together hundreds of local churches in a common program of supportive care for the health-impaired elderly.

That type of effort should prove fruitful in helping our society address more effectively the immense problems that lie ahead. Foundations already have a proven potential for helping public-sector institutions and agencies to initiate similar strategies.

The United States is characterized by an intricate tapestry of governmental jurisdictions and institutions -- not only the tripartite federal branches and their counterparts in the fifty states, but also three thousand counties, each with multiple townships, municipalities, school districts and other taxing authorities.

Virtually every one of these dispersed jurisdictions and the agencies they operate may be involved in some way in addressing the problems affecting our society -- the needs of the elderly, for example, or of children and youth. Yet, they seldom undertake coordinated actions to understand and meet these needs. Our major cities spend tens of millions of dollars annually to help troubled youth through school-based pupil support services, welfare services and child protection services. But the benefit is marginal for the young people concerned and the expenditures are largely wasted because the public entities involved have no structures, incentives, responsibilities or mandates to cross the bureaucratic boundaries that keep them separate.

This is a pervasive public-sector problem in which foundations can make a tangible difference. Given adequate will and leadership on the public-sector side, foundations can provide the one resource those in government can rarely access -- independent and nonpartisan funding for testing and developing new systems and arrangements for cooperative planning, programming and related financing.

We know such things can be done. We've done them. Our work in mental health services for youth, for example, rests in interagency cooperative agreements at both the state and local level. Also in the mental health field, we are helping states consolidate services and funding under new special-purpose authorities.

We are experienced and accomplished in creating coalitions within the voluntary sector and the public sector. It would appear to follow, therefore, that we can also help generate alliances involving both sectors.

Moreover, foundations are well positioned to engage the for-profit sector of our society in alliances that can be formed among voluntary and public-sector entities. For-profit enterprise is well aware of its huge stake in the success of voluntary and governmental missions to address human service needs -- like infant growth and development, family preservation, schooling, and health surveillance and care. At both the local and national levels the participation of the for-profit sector in the reforms required in the way human services are produced and financed is essential to progress.

In postulating -- indeed advocating -- foundation leadership in pooling the resources of the three parties to the American social contract (voluntary, governmental and for-profit), I am talking about much more than the facile concept of public-private partnerships. Rather, I am advocating structural reform in the way we perceive and approach the problems that are confronting us already, or that are looming on the near horizons of probability.

In terms of perception, we need to realize that all of us must accept moral ownership and responsibility. It is not the problem of government alone, business alone or nonprofits alone -- it is the problem of all parties, and all must join in the search for viable solutions.

Although reason, experience and conviction may tell us this is a role that should define the future of foundations, there is evidence calling into question whether they are prepared to grasp the opportunity.

Before foundations can expect other institutions to believe that they own a problem in common and must work in common to respond to it, they must be willing to accept the belief themselves. Sadly, this is not a prevalent attitude, particularly among the large national foundations. They function too much as medieval fiefdoms, each so jealous of its autonomy, so protective of its reputation, that mutual initiatives to address problems in concert are exceedingly rare. Joint committees of trustees or staff are seldom formed to look at issues -- and when joint funding occurs, it is almost always by coincidence and not by plan; project-specific and not strategic.

To be sure, there are genuine disincentives to promoting cooperative philanthropy -- most of them stemming from the myth of foundation power and influence that remains very much alive in populist circles. The imagined conspiratorial "foundation interlock" setting and controlling the public agenda has not vanished. Nor has the still more ludicrous perception that foundations are, in fact, a "secret

government" operating to subvert the democratic process, faded away.

To be fair about the insularity characterizing national foundations, it should be admitted that fear of charges of this kind probably explains their reluctance to engage in collaborative efforts. As one foundation trustee told me when I was starting our Community Care Funding Partners Program: "Collaboration can be viewed as one step away from collusion."

Fortunately, at the local and regional levels foundations are much more willing to work in concert on salient issues and to foster and participate in coalitions to address them.

I am persuaded that by joining with local and regional grantmakers, national foundations have their best opportunity to shape a future role for philanthropy as a catalyst for long-term strategic alliances among helping institutions. The Robert Wood Johnson Foundation has established this approach as a principal feature of its grantmaking.

Our Fighting Back program and our Local Initiative Funding Partners Program are two examples among several.

To the extent that our foundation can interest other national foundations in adopting a similar approach to programming -- or better yet, in joining us in funding local coalitions of grantmakers and service institutions -- RWJF will emerge as a pacesetter in modern philanthropy.

We have only to seize the day.

4/95



F. AFTERWORD: What Makes a Foundation Great?

At a recent staff meeting on the subject of philanthropy, Terrance Keenan, special program consultant to RWJF, offered some observations on what makes a foundation great. Keenan was vice president for special programs at RWJF from 1972 to 1990. Before joining RWJF, he worked at The Commonwealth Fund and the Ford Foundation. In 1993, Keenan was honored by Grantmakers In Health with the establishment of the Terrance Keenan Leadership Award in Health Philanthropy.

According to Keenan:

- A great foundation is informed and animated by moral purpose.
- A great foundation accepts responsibility and stewardship for pursuing these purposes.
- A great foundation walks humbly with its grantees -- it acknowledges that their success is the instrument of its own success.
- A great foundation is deliberate. It is guided by judgment. It acts where there is a need to act. It takes necessary risks -- and proceeds in the face of great odds.
- A great foundation is a resource for both discovery and change. It invests not only in the identification of answers, but also in the pursuit of solutions.
- A great foundation is accountable. It functions as a public trust -- and places its learning and experience in the public domain.
- A great foundation builds investment partnerships around its goals, creating coalitions of funders -- public and private -- to multiply its impact.
- Conversely, a great foundation participates in funding coalitions being organized by other parties to lend its support to purposes requiring multiple funders.
- Finally, a great foundation is self-renewing. It adheres to a constant process of self-reflection and self-assessment. It knows when it needs to change and to adopt measures to improve its performance.

12/99



A. INTRODUCTION - THE VOICE OF EXPERIENCE

"Knowledge is the distilled essence of our intuitions, corroborated by experience" - Elbert Hubbard

Philanthropy is a craft, like woodworking or blacksmithing. It can't aspire to the status of art because its value lies in its direct and immediate utility. It can't claim the stature of profession because its practice does not depend upon mastering a single body of knowledge of the sort that permits formal accreditation and peer review.

It does not belittle philanthropy to say that it has more in common with the great mass of useful human endeavors than it has with those presumed (largely by their own practitioners) to be the most elevated. The state of the utilitarian trades is the state of a civilization: you don't summon a philosopher when your pipes are clogged.

It does, however, underscore the importance of the master to the advancement of the philanthropic craft, and call attention to the process by which one becomes an acknowledged master.

The master craftsman is one part knowledge of the strengths and limitations of his raw material, one part skill with the tools that shape it, one part intolerance for anything short of perfection in the final product, and three parts intuition as to how the perceived limits of the craft can be transcended. And one thing more: he or she must be a teacher who can develop the skills and inspire the instincts of those who will follow.

Two events led to these ruminations -- the observance of the Foundation's 20th anniversary as a national philanthropy and Terry Keenan's announcement that he was retiring from full-time service after having been at the foundation for all 20 of those years.

Immense changes loom in the organization, financing and delivery of medical care in this country. We know what is driving those changes. We believe that we can discern at least their rough outlines. But that is a bit like saying that a view of a hurricane from a weather satellite in space prepares you to address the reality of the storm when it is upon you. Maintaining a long perspective while being battered by the winds of change will take all the knowledge, imagination and nerve we can muster. And the winds are rising as some of the wisest and best, like Terry Keenan, are departing. We can ill afford to lose that wisdom, those time-tested instincts.

Fortunately, that legacy won't be lost. Terry has set forth in a series of lectures to the Foundation staff, now edited into this booklet, the core of his perspective and knowledge. While no work of such brevity can encompass all that this extraordinary man has learned and accomplished in his two decades as a key member of the RWJF program staff, it does provide a distillation of the insights developed in that long and fruitful career. Those insights will benefit generations of those who will succeed him in the front-line trenches of philanthropy.

This is a brief work -- just 30 pages. But its brevity is one of its strengths. In this very condensed overview of the history and role of foundations, some uncomfortable dichotomies between our view of our role and the realities of the marketplace spring into uncommonly sharp focus. For instance, Terry points out that one of our major freedoms in the private philanthropic sphere is the freedom to fail -- the freedom to try a long-shot solution that would produce immense benefits if it succeeds. But he also notes that: The general doctrine driving staff behavior is the "doctrine of uniform success." A failed grant or a controversial one are too often perceived by the staff and by their peers not as our expected outcome of risk-taking, but rather as bad philanthropy. The hermetic and mandarin culture governing the norms of professional philanthropy is unforgiving of failure.

Further inhibiting our willingness to experiment boldly is a not unwarranted fear of political retribution from a Congress that does not like private foundations because: Its members, themselves forever chafing under (and not infrequently flayed by) the Constitution's demands for public accountability of public servants, is very uncomfortable with the foundation as a center of power and wealth that has not such accountability.

When you begin casting about for a way of reassuring those who might otherwise feel obliged to regulate us into impotence, you encounter in Terry's treatise the observation that: Foundations have no public constituency . . . no stockholders, voters, customers or interest groups to whom they must be responsive. . .no defined groups of people who they serve as clients, students or patients.

Therein lies the wisdom of Terry's insistence that foundations must be "regarded in American society as responsible stewards, of the funds within their care -- as, in short, authentic public trusts." That will not occur, he contends, until the foundations' "self-concept as public trusts becomes the overriding faith and the guiding force of their behavior." To prove it, he recommends five things:

1. A broadly based and independent board that includes women and minorities.

2. A written definition of purpose.
3. A published annual report.
4. Adequate professional staff.
5. Responsiveness to every applicant.

Clearly, what drives each of these recommendations is the perception that we must not only be responsible stewards, we must be perceived to be responsible stewards.

That's the sort of treatise Terry Keenan has written, one which, read carefully and reflected upon, possesses a seminal integrity. It doesn't pretend to provide all the answers to the questions the future will propound about the nature and potential of private philanthropy, but it would seem, from my experience in the field, to possess the great majority of the elements that must be considered by anyone propounding those questions.

For that reason, I urge the reader not to dip into this work only in those areas of his or her immediate interest or concern, but to read it in its entirety, and to engage it in honest intellectual dialogue, recalling that the author intended for there to be questions and answers after the presentation.

If we attend carefully to the quiet voice that speaks from these pages, we will have Terry Keenan's wise and humane counsel to draw upon through whatever tests and tribulations the future may be preparing for us. I think there will be times when we will be very glad to have this small, parting masterstroke from this acknowledged master of our craft. I think we will be very glad, indeed.

Steven A. Schroeder, M.D.
September 10, 1992

B. PREFACE

Private philanthropic foundations are financially independent venture capital sources for the development of new ideas and concepts for social improvement. This focus on ideas, which sets them apart from the voluntary sector's other component -- the huge maze of non-profit service organizations -- is both their strength and their vulnerability.

The freedom that foundations enjoy from the restraints of public accountability is distrusted (and envied) by government, which tightly regulates their activities. That same independence works against the prospect of joint ventures with other foundations. And their lack of corporate or governmental imprimaturs means that foundations have no more authority for their role as social change agents than can be conferred by the wisdom they display in fulfilling that role.

Their contribution to the public weal is largely unrecognized by the great mass of Americans. It is overrated by their more reactionary critics and by those who know

them only slightly, and is perceived as frustratingly less than it could be by the incorrigible idealists (which is to say most of us) in the ranks of those who serve them.

For all that, they are a precious resource for a nation in desperate need of ideas upon which to base solutions to a truly daunting array of social problems. That value can only increase in an era in which resources from the governmental and corporate sectors for trying new solutions to these problems are in decline, and likely to remain so.

Foundations, despite the regulatory hurdles placed in the path of their formation, are a growth industry. In 1990 there were some 32,000 private foundations. Among them, they controlled \$137 billion in assets and distributed nearly \$8 billion in grants annually. Even correcting for inflation, this represented a 93 percent growth in assets and a 60 percent increase in grants from 1980 levels. This reflects -- and outstrips -- a general rise in private giving for health and other human services during a decade characterized by tight containment in public outlays. From 1980 to 1990, private giving for charitable purposes rose by 38 percent in constant dollars to \$122.6 billion in 1990.

That pattern of growth is likely to continue for some time, in part because of a ten-year time lag typically experienced by foundations between their creation and the full funding of their corpus. One-third of the private foundations now in existence are less than ten years old.

The effective size of the foundation field is considerably less than the 32,000-foundation figure might suggest. The top 7,500 Foundations accounted for 96 percent of the assets and grants of all foundations, and the top 25 foundations controlled roughly \$44 billion, or one-third, of the assets and \$1.4 billion, or slightly less than one-fourth, of the grants.

While the assets and grantmaking of the foundations appear formidable, they amount to only 5.8 percent of all philanthropic giving. (Individual donations to churches, by comparison, account for 83.1 percent of private philanthropical donations.)

It is against this background, and in conjunction with the 20th anniversary of The Robert Wood Johnson Foundation's emergence as a national philanthropy, that I was asked to present a three-part seminar to the Foundation staff on the role and potential of foundations in helping our society identify, understand and resolve the profound challenges it faces. It is from those presentations that this paper is drawn.

The first subject addressed is the uncertain status of foundations as American social institutions, beginning with a summary of the hostile challenges from Congress and federal regulators which culminated in the Tax Reform Act of 1969, and the principal efforts of the foundation community to escape their more onerous burdens. I also explore the persistent structural problems, such as lack of a public constituency, that will continue to deny foundations a secure role in our national polity. This section concludes with a call for foundations to base their behavior on

their belief in themselves as a public trust.

Section two, developed from the second seminar, reviews the foundation role as the largest single source of private investment capital for increasing our general understanding of the enormous American health enterprise, and for improving the organizational and financing structures for health and medical care. Highlights of private foundation health philanthropy are reviewed, including medical education in general and minority medical education in particular; public health education and practice; nursing education, including the introduction of nurse practitioners; and foundation-funded domains of knowledge, including health services research and the population sciences and technology.

This section also addresses some of the special characteristics of foundations which enable them to make a difference -- their freedom to test and develop new ideas and approaches, to take risks and to analyze probabilities and anticipate the future. It ends with a discussion of some key principles of practice required for good philanthropic performance.

The final section examines potential future roles for foundation philanthropy, exploring the escalating scale and severity of health and human services problems and the shrinking resources available to address them. These circumstances provide foundations an unprecedented opportunity to become full and visible partners with the governmental and business sectors in the American social contract. This opportunity for astute grantmaking to assist the 1.2 million voluntary organizations of the nonprofit sector in making the most effective use of their talents and resources focuses upon helping, form long-term alliances and coalitions among local agencies to resolve key community problems and enlisting the public and business sectors to provide leadership and long-term funding for such projects.

It also addresses the impediments foundations face in coalition- building, including the isolation of the large national foundations from one another and their reluctance to assume a leadership role in joint planning and action. It concludes, however, that there is ample evidence to indicate that local and regional foundations, at least, would welcome participation of national foundations in building private, business and public sector coalitions in their communities.

In closing this preface, I wish to acknowledge the contributions of Paul Jellinek, who conceived the seminar series, Tom Gore, who, like Paul, felt that the series should appear in printed form as a part of RWJF's 20th Anniversary program, and Jim Keyser, who edited the text of my presentations and the discussions that followed.

C. THE ROCKY ROAD OF REGULATION

CONGRESSIONAL INQUIRIES

Congress does not like private philanthropic foundations, and, in all likelihood, never will. Its members, themselves forever chafing under (and not infrequently flayed by) the Constitution's demands for public accountability of public servants, is very uncomfortable with the foundation as a center of power and wealth which has no such accountability. The congressional hostility toward foundations has been manifest since the passage of federal income tax legislation in 1909 and 1917.

In 1913, for example, the request of the Rockefeller Foundation to become a federally chartered institution with public representatives on its board was rejected. In 1916, the Walsh Committee recommended draconian regulatory powers be imposed over the governance of foundations. Congress took no action on these extreme recommendations, but the hostility they embodied remained, resurfacing periodically in a variety of forms and forums, culminating in the Tax Reform Act of 1969:

COX COMMITTEE, 1952:

The House Select Committee to Investigate Tax-Exempt Foundations and Comparable Organizations, chaired by Rep. E.E. Cox of Georgia, investigates whether foundations promote "un-American activities."

REECE COMMITTEE, 1953:

Chaired by Rep. B. Carroll Reece of Tennessee, it pursues a broader mandate -- to determine whether foundations used their resources for non-exempt purposes, subversive activities, political activities, propaganda or influencing legislation. The committee's recommendations foreshadowed the Tax Reform Act of 1969 in proposing that foundations:

- Be treated as a separate class of charitable institutions
- Come under a mandatory payout of income, including capital gains
- Be prohibited from investing more than five to ten percent of their holdings in any one enterprise
- Be prohibited from all political activities.

PATMAN INVESTIGATIONS:

Rep. Wright Patman of Texas launched an assault from his podium as chairman of the Select Committee on Small Business that lasted throughout the 1960s. His investigations revealed a number of instances of self-dealing and other abuse that led him to recommend that:

- The life of foundations be limited to 25 years
- Foundations be prohibited from engaging in business, directly or indirectly An "arm's length" relationship be enforced between the donor and the foundation Foundations be limited to ownership of no more than three percent of any corporation, and be prohibited from voting their stock charitable deductions be denied to donors who control foundations until the money is actually used for charity

- Capital gains be treated as income, not capital Foundations be prohibited from influencing political campaigns through voter registration drives.

Patman's hounding drew the attention of Congress and the public. The House Ways and Means Committee and the Senate Finance Committee jointly requested a Treasury Department report.

TREASURY REPORT ON PRIVATE FOUNDATIONS, 1965:

The Treasury Department response to that joint congressional request listed six major problems with foundation philanthropy:

1. **DELAY IN BENEFIT TO CHARITY.**
Accumulation of income. Investments in low-yield assets, such as land.
2. **OWNERSHIP OF BUSINESS.**
This would enable a for-profit company to set up a foundation, then create a subsidiary of the corporation financed through tax- exempt dollars from the foundation.
3. **FAMILY USE OF FOUNDATIONS TO CONTROL CORPORATE AND OTHER PROPERTY.**
A donor, for example, could grant a foundation stock to a company, reap a large tax deduction and lower his or her equity in the business, thereby reducing estate taxes.
4. **QUESTIONABLE INVESTMENTS.**
Foundations were investing tax-exempt funds in speculative securities.
5. **SELF-DEALING.**
Donors used foundation assets for self-advantage, such as buying control of another company.
6. **UNLIMITED DONOR CONTROL.**
Donors and families could control a foundation in perpetuity. There was no limit to their tenure on the board.

THE PETERSON COMMISSION

After the Treasury report was issued, several major foundations organized the Commission on Foundations and Private Philanthropy, chaired by Peter G. Peterson, President of Bell & Howell Corporation. It was not a very influential effort, its main message being that there was no hard evidence to support the view that financial abuse and self-dealing were widespread among foundations.

THE TAX REFORM ACT OF 1969

PROVISIONS OF THE ACT

The culmination of this long history of probing and proposals was the long list of provisions contained in the Tax reform Act of 1969:

1. Two categories of foundations are created:
 - NON-OPERATING FOUNDATIONS
The grantmaking foundations.
 - OPERATING FOUNDATIONS
 - Entities which expend substantially all their income directly for the active conduct of the activities constituting its exempt purpose (e.g., the Hughes Medical Research Institute)
 - Entities which meet one of three tests:
 - It devotes more than half its assets to its exempt purposes (e.g., many museums, historic sites and research institutes)
 - It normally expends not less than two-thirds of its "minimum investment return" (4 percent) to finance its operations (e.g., endowed institutions like Longwood Gardens)
 - Normally receives all of its support, other than gross investment income, from five or more exempt organizations and the general public, with not more than 25 percent coming from a single exempt organization, and not more than half from investment income (e.g., learned societies, research libraries, etc.).
2. Donors to private foundations are denied the favorable tax deductions afforded to traditional 501(c)(3) charities -- schools, churches, medical institutions, colleges and universities, and "publicly supported agencies meeting certain tests."
3. A 4 percent net excise tax on investment income of foundations is imposed.
4. A "disqualified person" category is established. It includes:
 - Family members of donors, including spouses, ancestors, lineal descendants, spouses of lineal descendants
 - Substantial contributors, defined as those making donations of whichever is the greater of 5,000 or two percent of the foundation's income in any one year
 - A foundation manager (officer, director or trustee).

Disqualified persons are forbidden to:

- Sell, exchange or lease property for the foundation

- Receive loans or credits
 - Receive compensation unless "necessary and reasonable."
5. A minimum payout stipulation requires that foundations distribute all net investment income within one taxable year, or a minimum of 6 percent of endowment, whichever is greater.
 6. Excess business holdings are forbidden. Foundations may hold no more than 20 percent of voting stock in a corporation.
 7. High-risk investments are forbidden. A penalty on managers of 5 percent of the amount involved is provided.
 8. Grants to other private foundations or to organizations not classified as public charities are denied tax exemption. One practical effect of this provision is to put foundations at legal risk if they make grants to organizations not classified as traditional public charities. In general, grants may be made to Section 501(c)(3) charities not classified as private foundations under Section 509(a). The act defines those entities as:
 - 501(c)(3): entities "organized and operated exclusively for religious, charitable, scientific, literary and educational purposes."
 - 509(a)(1): organizations such as educational institutions, hospitals, churches, public instrumentalities and publicly supported and operated institutions.
 - 509(a)(2): organizations which receive more than one-third of their income from public sources and less than one-third from investment income.
 9. Lobbying by foundations is prohibited, except for lobbying in their own defense. The prohibition includes electioneering and grassroots campaigning.
 10. Grants to individuals are forbidden, except:
 - scholarships and fellowships for study at an institution
 - prizes and awards recognizing achievement
 - grants for a specific purpose, such as a report to improve the skills and talents of the grantee.
 11. Voter registration grants are restricted to organizations conducting this activity in at least five states. Voter registration projects may not be limited to a single election.
 12. In order to terminate its status as a private foundation, an entity must:
 - become a public charity (i.e., an operating entity)
 - donate all its assets to a public charity pay a terminator tax equal to the aggregate tax benefits it had ever received, plus interest.
 13. Foundations are required to file an annual information return.

EFFECTS OF THE ACT

The effect of the act was clearly chilling:

1. It made many foundations timid about supporting any activity that could be construed as influencing legislation.
2. It halted the launching of new foundations. Income tax advantages were less than giving to a public charity. The regulation and its penalties were both daunting. And families would have to give up a major share of voting power in a family company.
3. Falling yields on investments in the 1970s made the 6 percent payout onerous. Foundations had to spend out of capital while inflation was eroding the value of their assets.

RESPONSES TO THE ACT

Whatever its shortcomings, the tax reform act had one salutary effect -- it stimulated foundations to work collectively to repeal some of the act's more procrustean provisions and to improve public understanding of their activities and of their role in American society. Two committees were formed, one in 1970, the other three years later, to propose responses to the draconian elements of the Tax Reform Act:

GARDENER COMMITTEE, 1970:

Under the leadership of John Gardner, former president of the Carnegie Corporation, the Committee on the Foundation Field was formed to make recommendations on improving public understanding. Its major recommendation was that the two organizations then serving the field -- the Council on Foundations and the Foundation Center -- should be consolidated into one broad membership organization, to be called the American Council of Foundations.

This did not happen. Instead, the Center and the Council continue to operate separately, each with an expanded staff and funds, but each with a different emphasis. They have since been joined by a third national organization, The Independent Sector, which fulfills still another role for the foundation field.

COMMISSION ON PRIVATE PHILANTHROPY AND PUBLIC NEEDS, 1973:

Chaired by John H. Filer, the committee worked two years on proposed changes in the Tax Reform Act. Its findings were contained in a report entitled "Giving in America: Toward a Stronger Voluntary Sector." The commission recommended:

- repeal of the excise tax on investments
- a flat payout of 5 percent. Congress began relenting on those provisions of

the Tax Reform Act, beginning with the Revenue Act of 1976. By the time it passed the Economic Recovery Act of 1981, it had reduced the payout rate to 5 percent and cut the excise tax to 2 percent.

THE FOUNDATION CENTER

The Foundation Center, headquartered in New York City, is the nation's principal center for gathering, organizing and disseminating information on foundations. Its publications include:

THE FOUNDATION DIRECTORY:

Concise profiles of the 7,500 U.S. foundations with assets of at least \$1 million or with annual grants of \$100,000 or more.

THE NATIONAL DATA BOOK OF FOUNDATIONS:

Brief information on the 32,000 active U.S. foundations.

SOURCE BOOK PROFILES:

Detailed analyses of the nation's 1,000 largest foundations. Similar information is provided in the NATIONAL DIRECTORY OF CORPORATE GIVING..

The Center also publishes profiles of funding patterns in different fields -- Arts and Culture; Children, Youth and Family; Aging; Health; Substance Abuse; Religion; Elementary and Secondary Education.

It also maintains and publishes a Grants Index by subject, which currently covers 46,000 grants of \$5,000 or more. The index forms the basis of COMSEARCH, which offers computer printouts on foundation grants in some 30 fields.

The Center maintains comprehensive libraries in New York, Washington, D.C., Cleveland and San Francisco, and basic collections of its references in some 180 cooperating libraries.

The New York and Washington collections contain microfiche copies of all IRS 990-PF returns. The Cleveland and San Francisco libraries contain regional returns, and many cooperating libraries have the returns from their state.

The Center's "User Friendly Guide" is published to help researchers make the best use of its directories and other references.

THE COUNCIL ON FOUNDATIONS

This Washington, D.C.-based membership organization provides a number of services:

1. The Council monitors legislation affecting the foundation field.
2. It represents the field before Congress, the IRS, other federal agencies and the general public.

3. It defines and maintains, in a somewhat rudimentary way, standards of good practice and performance.
4. It publishes a quarterly journal, FOUNDATION NEWS and holds an annual meeting for its members.

THE INDEPENDENT SECTOR

A third organization, The Independent Sector, is an outgrowth of the National Council on Philanthropy. Its members include corporate grantmakers and all manner of nonprofit agencies as well as foundations. Based in Washington, D.C., it has emerged as a very strong voice for the role of the voluntary sector in American life.

None of the three nationwide organizations representing the foundation field is very strong on research. Indeed, research on philanthropy is not a mature scholarly field. With the notable exception of the Russell Sage Foundation, philanthropic support for research in the philanthropic field has been very limited.

This is beginning to change somewhat with the emergence of university-based research centers on philanthropy and the voluntary sector in general. One such center is located at Indiana University under Robert Payton, another at Yale University under Bradford Gray.

CONCLUSIONS

From this review of the dimensions of foundation giving and the emergence of the current legal environment governing foundation operations, the following conclusions appear warranted:

1. The foundation field's current growth curve is likely to continue well into the present decade, as the very substantial number of foundations established in the 1980s begin to receive the major gifts and bequests of their donors.
2. Current controls are likely to remain -- notably the 2 percent excise tax, the 5 percent payout and the restrictions on types of recipients.
3. Public trust in and acceptance of foundations is likely to remain ambiguous and uncertain, for several reasons:
 - a. Foundations have no public constituency.

Unlike business or government, they have no stockholders, voters customers or other interest groups to whom they must be responsive. Unlike hospitals, colleges and universities, and social service agencies, foundations have no defined groups of people whom they serve as clients, students or patients.

- b. Foundations are associated in the public mind with the elitism and privilege it ascribes to great wealth.

There is a suspicion that the wealthy give not out of a spirit of altruism, but

out of a desire for social influence and control -- a sentiment captured by Teresa Odendahl in her book, "Charity Begins at Home: Generosity and Self-Interest Among the Philanthropic Elite."

c. Foundations have never been able to shed their image of being a "tax dodge" for the very rich.

There is no denying that foundations provide important tax advantages to their founders, in estate taxes as well as income taxes. It does not matter to the public, apparently, that this is equally true of all charitable giving.

What measures, then, can foundation take to become regarded in American society as responsible stewards of the funds within their care -- as, in short, authentic public trusts?

In my view, foundations' credibility will never achieve this level until their self-concept as public trusts becomes the overriding article of their faith and the guiding force of their behavior. At a minimum, I would argue, this demands:

1. A broadly representative board that includes women and minorities, and that is not controlled by the founding family or company.
2. A written definition of purpose, committing the institution to leadership in its chosen area of concentration.
3. A published annual report.
4. Adequate professional staff, full-time or part-time, depending upon the size of the foundation.
5. Responsiveness to every applicant.

D. THE FOUNDATION RECORD IN HEALTH PHILANTHROPY

Any survey of foundation accomplishments in general would be far too sketchy to be of much use to us in assessing how these unique institutions work and what they are capable of accomplishing. So let us focus on just one area -- one very large area, admittedly -- in which foundations have been a very significant force.

The gargantuan size of the national health bill -- three-quarters of a trillion dollars a year and growing -- makes the estimated \$1.3 billion in foundation health spending appear almost marginal.

However, when you look at the ratios between consumption spending and investment spending on the national scale, the accounting changes. Roughly 80 percent of national spending, public and private, goes to current consumption. Only 20 percent is devoted to investment spending, such as efforts to develop new knowledge and capacity.

Foundations, on the other hand, devote about 90 percent of their grants to

investment spending. They are the largest single source of private developmental capital in this country for improving our knowledge base and the organizational and financing structures of health and medical care.

They have performed this function since the turn of the century, when organized philanthropy first materialized as a force for the systematic application of private wealth for the public good. Here are some of the areas in which their contribution has been significant:

HEALTH PROFESSIONS EDUCATION.

The concept of medicine as a learned profession deeply rooted in university scholarship was established in the United States by the founding of the Johns Hopkins University and, in 1901, by the establishment of the Rockefeller Institute for Medical Research, both of which were fostered by Rockefeller philanthropies. These institutions and a few others became the standards by which Abraham Flexner measured medical education in his famous report of 1910 (*MEDICAL EDUCATION IN THE UNITED STATES AND CANADA*). Among other things, this report -- funded by the Carnegie Foundation for the Advancement of Teaching -- recommended that medical schools should function as university institutions, staffed by full-time clinical faculty, wholly devoted to research, teaching, and patient care.

The General Education Board, another Rockefeller philanthropy, supported the adoption of these precepts by investing more than \$100 million -- a sum equivalent to \$1.3 billion in current dollars.

In time the innovations of the Flexnerian model became more or less universal doctrine, displacing archaic practices which, for example, had denied doctors in training access to patients until their third year of medical school. Starting at Case Western Reserve in 1953, medical faculties began to experiment with more flexible and relevant curricula, such as the New Pathways Program at Harvard. The pace of reform continued rapidly for more than a decade, largely supported by the Commonwealth Fund.

However, the Flexnerian reforms of medical education were insufficient to deal with the impact on medical practice of the extraordinary growth, in size and complexity, of the body of medical science and technology. Among these effects was the rise in specialty and subspecialty practice, and the decline in physicians providing general and primary care. In the 1960s and 1970s when this shift occurred, universal health insurance seemed imminent, making the relative scarcity of generalist physicians a potential national crisis.

There was a rapid and significant philanthropic response to the problem. The Robert Wood Johnson Foundation and the Henry J. Kaiser Family Foundation, among others, not only expanded the capacity of academic medicine to educate generalist physicians, but built a research base under this effort focused on primary and ambulatory care. The Robert Wood Johnson Foundation's contribution

includes the preparation of 102 new academic investigators in family practice and 111 in general pediatrics.

The shortage of generalist physicians brought to prominence the plight of the nation's minorities, whose access to health and medical services has never approached their needs. Philanthropy has sought to remedy this situation for decades. Black medical schools, such as Meharry Medical College, continue to command their attention. The National Medical Fellowships -- with foundation support -- has been an important source of scholarship and loan funding for thousands of minority medical students. The efforts of mainstream medical schools to increase minority enrollments have also received consistent foundation assistance. The work of the Josiah H. Macy, Jr. Foundation in this area has been particularly noteworthy.

In recent years, The Robert Wood Johnson Foundation has been conducting a program to equip young minority physicians for leadership careers as investigators in the medical sciences -- positions in which minority participation has been all too rare. This fellowship program will help assure that minority students will have the benefit of outstanding minority faculty as role models.

Despite efforts by foundations to expand access to basic medical care throughout our society, including minority communities, the imperative to infuse the flow of new scientific knowledge into the education of physicians has not only continued to foster the proliferation of subspecialty practice, it has so compounded the complexity of medical knowledge that faculties no longer understand what constitutes the essential base of learning for clinical practice. These developments have given rise to a quiet but profound concern among many in academic medicine.

More than a dozen schools are planning to reform their teaching programs in major ways. A new Commission on Medical Education, established by The Robert Wood Johnson Foundation, is serving as a forum to foster these efforts. The Pew Charitable Trusts have also established a Health Professions Commission to undertake a broad inquiry into the challenges confronting learning and practice in these fields in the coming decades.

PUBLIC HEALTH.

Professional education for public health had no formal base in this country until 1913, when the Rockefeller Foundation established the School of Hygiene and Public Health at Johns Hopkins under Dr. William Welch. In the ensuing years, Rockefeller provided the major funding for 22 additional university schools in 17 countries.

Formal public agencies for the application of public health science have existed only sporadically in America throughout most of its history. Model departments at the county and state levels, adequately staffed by trained professionals, began to emerge in the 1920s with support from the Commonwealth Fund.

More recently, the W.K. Kellogg Foundation has announced a new initiative to build formal partnerships among schools of public health, health departments and community health service agencies.

NURSING EDUCATION.

The Rockefeller Foundation helped advance the concept of nursing as a university-based discipline through its support for the Committee for the Study of Nursing. The Committee's report, prepared by Josephine Goldmark, was issued in 1923. It recommended the establishment of university schools to prepare nurse leaders. Aside from the Rockefeller Foundation-funded creation of the Yale School of Nursing, little progress was made in developing nursing as a learned profession until after World War II, when the Russell Sage Foundation commissioned another study of nursing education.

That study, headed by Esther Lucille Brown, again recommended that the preparation of nurses be based in higher education. This has been achieved less by the university, however, than by the rise of the community college -- a movement fostered particularly by the W.K. Kellogg Foundation. Today, community colleges conduct 62 percent of the nation's nursing schools, and colleges and universities 31 percent. (The remainder are hospital-based.)

THE NEW HEALTH PROFESSIONS.

A component of university-based education for primary care practice that is often overlooked is the introduction of nurse practitioners and physician assistants -- the so-called "new health professionals" who have demonstrated that doctors can safely delegate much routine care to non-physician colleagues. Physician assistants were first trained at Duke University under a grant from the Macy Foundation, and the first nurse practitioners at the University of Colorado under a grant from the Commonwealth Fund. This innovation in health manpower was sustained entirely by private foundations for nearly six years before it was able to attract public dollars.

Finally, the W.K. Kellogg Foundation is seeking to unify the education and practice of the full spectrum of health professions around the concept of comprehensive, community-oriented primary care.

HEALTH SCIENCES RESEARCH.

Signal contributions to advances in understanding the course and cure of disease marked the "golden age" of American philanthropy. And support for research and teaching in the biomedical sciences continues today as a feature of many foundations -- for example, the Lucille P. Markey Charitable Trust.

Indeed, the nation's largest private foundation -- the Howard Hughes Medical Institute -- devotes virtually all of its \$5.6 billion endowment to the operation of

university-based laboratories working on the frontiers of genetics and other aspects of cellular and molecular biology. Still, with federal expenditures for the National Institutes of Health alone now exceeding \$7 billion annually, philanthropic foundations have only a limited role to play in the financing of basic sciences research. It is well worth recalling, however, that foundations were crucial agents in the application of science to the control or eradication of the massive epidemics that racked this country and the world only a few generations ago.

The Rockefeller Sanitary Commission and International Health Board helped significantly reduce the scourges of hookworm, malaria and yellow fever. The Rockefeller Foundation maintained laboratories in the United States and in many parts of Latin America and Africa, and it became the world center for research on tropical diseases -- yaws, schistosomiasis, and many others.

In 1935 at the Foundation's New York laboratory, Dr. Max Theiler discovered a vaccine for yellow fever. The laboratory would serve as a worldwide wartime supplier between 1941 and 1945.

Major new fields of knowledge in the biological and related health sciences received their earliest recognition and nurture from the country's private foundations. Pioneering investigators in genetics, including Thomas Hunt Morgan, were aided by the Guggenheim Foundation and the Carnegie Institution of Washington. The discovery of the DNA molecule was the work of three scientists at the Rockefeller University -- Avery, MacLeod and McCarty. Funds from the National Foundation for Infantile Paralysis enabled James Watson to work with Francis Crick in defining the molecular configuration of DNA.

Psychiatry, psychiatric social work, clinical psychology, and early childhood development and learning are among fields that have achieved acceptance and maturity with private foundation funding, especially from the Commonwealth Fund and the Carnegie Corporation.

HEALTH SERVICES RESEARCH.

This important domain of inquiry into health and health policy -- how health care is organized, distributed and financed -- is the product of years of assistance by philanthropy. Its work includes developing and applying techniques of gathering, analyzing and assessing health data, including the cost-benefit ratios of different modes of treatment and the outcomes of health care. The Milbank Memorial Fund has worked consistently in this area for many decades through its support for such disciplines as epidemiology and biostatistics.

Under the Clinical Scholars Program, initiated by the Commonwealth Fund and the Carnegie Corporation, 573 clinical faculty members of medical schools have been qualified as investigators in health services research. The program has been continued by The Robert Wood Johnson Foundation since 1972.

POPULATION SCIENCE

is another discipline developed largely at the initiative of philanthropy. From basic research in reproductive physiology to contraceptive technology and demography, the full spectrum of population sciences has been fashioned largely by philanthropy -- notably the Ford and Rockefeller foundations. Given the political climate surrounding family planning, the independence of foundations to pursue basic and clinical research in this area remains particularly important.

NUTRITION.

Field laboratories built and operated by Ford and Rockefeller in Mexico and the Philippines have had remarkable success in introducing high-yield, disease-resistant strains of corn, wheat and rice. The work of these foundations on plant genetics and plant pathology of the world's basic food staples is emblematic of what can be accomplished by national philanthropies.

APPLICATION OF THE PHYSICAL SCIENCES TO LIVING SYSTEMS.

Modern medical technology is rooted in the application of the physical sciences to living systems and processes. High energy radiation owes much to Ernest O. Lawrence, who built the first powerful cyclotron under funding from the Research Corporation, a private foundation based in New York.

Space medicine would not have been possible without the availability of rockets able to overcome the earth's gravitational pull. The work of the father of American rocketry, Robert Goddard, was supported by the Guggenheim Foundation as early as 1915.

INTERDISCIPLINARY RESEARCH

has been a useful means of pursuing answers to problems in human health that relate to the individual's responses to social, economic and other environmental factors. Foundation funds have encouraged studies of this kind through such organizations as the Yale Institute for Human Relations and the Laboratory of Social Research at Harvard. Foundations also have established independent research centers, some of which have achieved considerable prominence and influence. Among these are the Brookings Institution, the Social Science Research Council, the National Bureau of Economic Research, the Population Research Council, the Center for Advanced Study in the Behavioral Sciences, the National Research Council, and the Institute of Medicine of the National Academy of Sciences.

Through interdisciplinary networks of individual investigators, the MacArthur Foundation has done much to advance understanding of mental illness and of the

developmental challenges confronting people at all stages of the life cycle.

HEALTH SERVICES.

In the domain of patient care, academic health sciences centers, particularly university teaching hospitals, constitute the very citadel of tertiary care -- where state-of-the-art subspecialty practice is both provided and taught, and where experimental medicine is transformed into the clinical technologies of the future.

Foundations have a long history of support for the work of university teaching hospitals, often directed at specific diseases or conditions. The Kresge Foundation has been especially responsive to their needs for modern facilities.

HEALTH SERVICES MANAGEMENT

is an emerging area of strength for universities that provide research and training in such fields as computer science and information technology, the collection, analysis, and communication of data on such matters as service utilization and costs. The Robert Wood Johnson Clinical Scholars Program has been a major force in training physicians to function at the frontiers of health services research.

The management of health services institutions, agencies and systems has been a long-standing foundation interest. In the mid 1940s the W.K. Kellogg Foundation established most of the early graduate programs in this area and was also instrumental in founding the Association of University Programs in Health Administration. Foundations have also exerted considerable leadership in the testing and development of new health care arrangements, often from a university base. The Kaiser Family Foundation has been at the forefront of prepaid group practice throughout most of its history and was involved, for example, in the establishment of the Georgetown University Plan. The largest such project -- the Harvard Community Health Plan -- was initiated with the help of the Ford Foundation and the Commonwealth Fund.

The local voluntary hospital, so central to American communities today, was a rarity only fifty years ago. During the 1920s and '30s the Commonwealth Fund helped to build some 15 local hospitals that incorporated such features as community boards, open staffs and full-time business managers. These features became nationwide models when they were incorporated into the Hill-Burton legislation in 1948. The Commonwealth Fund established the first child guidance centers in the United States. These institutions have become widely adopted as part of the American social services system.

In the health policy arena, foundations have provided important startup funding as well as project support to a number of university centers. Many play important state and regional roles, and a few -- like the University of California, San Francisco -- have provided significant national leadership. The Institute of Medicine (IOM) has had foundation support for many years, including large core support grants from the W.K. Kellogg Foundation and The Robert Wood Johnson

Foundation.

At a time when most federal policy initiatives in health appear paralyzed by the national deficit, the university centers funded by foundations, along with the IOM, could become even more important.

SPECIAL QUALITIES OF PRIVATE FOUNDATIONS

Foundation achievements in health philanthropy are not the product of money alone. They are an expression of a set of qualities inherent in foundations as an institutional form -- qualities that translate into special capacities to serve the public welfare:

- **INDEPENDENCE IN SELECTING THEIR GOALS.** The lack of natural constituencies to secure their place in American society is not without its advantages. It provides them with an extraordinary measure of independence in choosing their goals.
- **FREEDOM TO INVEST IN INNOVATION.** There are few restrictions, other than the dictates of good judgment, to investment in promising new approaches to problems -- even those so innovative that the risk can't be assessed in advance with any real assurance. An example would be The Robert Wood Johnson Foundation's funding for the National Center for the Prevention of Child Abuse and Neglect.
- **FREEDOM TO FAIL.** This, perhaps, is the greatest of all freedoms in seeking to devise new approaches to social problems. Business and government are using other people's money in their solution-seeking endeavors. That has a very chilling effect on risk-taking. Foundations are self-financing. They can afford to be more open to high-risk, high-promise solutions (e.g., The Robert Wood Johnson Foundation's Community Programs for Affordable Health Care).
- **TIME TO ANTICIPATE THE FUTURE.** The day-to-day demands of current problems are at a minimum in the foundation environment. Foundations have the luxury of time to analyze trends and assess probabilities. They can intervene in evolving problems at very early stages, assuring their intervention maximum leverage.
- **UNEQUALED FLEXIBILITY AND SPEED.** Probably no other entity has the ability of a foundation to initiate action or change tactics in addressing social problems in a timely manner. Our Health Care for the Homeless Program is an example of one such response.
- **THE FREEDOM TO PERSIST.** Since they answer to no outside constituency, foundations have the luxury of staying the course. They are not subject to the whims of political change, popular taste or intellectual fashion. They can "hang in" on a tough and intractable issue -- keeping it on the public agenda until there is sufficient professional or political will to deal with it. Our longstanding work in access to care a good instance of such perseverance.

- **THE POWER TO PIONEER NEW FIELDS OF KNOWLEDGE.** They can train the scholars and professionals required to advance work on these issues. Our Clinical Scholars Program and its contributions to health services research is an illustration.
- **THE FREEDOM TO DEVELOP NEW INSTITUTIONS OR INSTITUTIONAL SYSTEMS FOR CONFRONTING MAJOR NEEDS.** Our EMS and Perinatal Care Programs are two examples of this capacity.
- **THE ABILITY TO CONVENE.** Foundations have the authority, in their role as neutral, independent entities, to serve as conveners around issues. The RWJF Commission on Medical Education illustrates this point.

Many would hold that these attributes apply principally to the larger national foundations. They have the resources and national perspective to derive the greatest effect from these capabilities. But I am not convinced that only the national foundations have that power and leverage.

Foundations with relatively modest assets -- \$5 million to \$10 million -- can employ combinations of these special institutional characteristics to great advantage, and they can do so on a local, regional or national basis. Local foundations in Kansas City, for example, were among the first to demonstrate the school-based adolescent health center concept. While local foundations generally do not invest in evaluations of the magnitude and scale of their larger counterparts, they have the ability to do so when such studies are decisively important to them. The evaluation of the "Beethoven Project" by the Harris Foundation in Chicago is an example. This is a demonstration project of comprehensive services to infants and children from birth through age 5. It has great importance for the "school readiness" of the children involved, and it has received national attention.

PRINCIPLES OF PRACTICE

What lessons, then, are we to derive from foundation philanthropy as a field of professional service, from their productive history and institutional advantages as facilitators of progress?

This question can properly be addressed from two perspectives -- institutional practice and practice on the part of the individual program officer.

INSTITUTIONAL PRACTICE.

We have already reviewed many of the key elements of institutional practice at the close of the first section:

- A conscious moral and ethical belief in the institution as a public trust
- A broadly representative board, including women and minorities
- A written definition of the foundation's mission, goals and program interests
- A published annual report

- Professional staffing, part-time or full-time, depending on the foundation's size
- Responsiveness to every applicant.

To this list I should add that the Board needs to establish clear rules about conflicts of interest on the part of the individual trustees and/or staff members. No one associated with the foundation should be involved in a proposal from an institution in which he or she is active.

INDIVIDUAL PRACTICE.

In addition to the conflict-of-interest issue noted above, staff members must possess the sensitivity to recognize that proposals usually embody an idea, activity or cause that is precious to the applicant. Whether the proposal contains anything new or promising is immaterial in the transaction between the applicant and the staff member. The applicant's proposal warrants a respectful review, and the "turn down" letter must at least show knowledge of the contents of the proposal, convey regrets that it could not be funded by the foundation, and express the hope that the rejection will not discourage the applicant from pursuing other potential funding sources. I would suggest that the letter include a listing of the cooperating libraries of the Foundation Center, which house collections of the Center's directories of foundations.

Another individual issue is the extent to which the applicant's proposal should be manipulated by the staff member either to make it more fundable or more to the staff member's liking. The staff member's experience and/or reviews by outside consultants may indeed point to important ways in which the proposal can be strengthened. However, great care should be taken to avoid changing the intent of the proposal. Applicants will rarely say no to such suggestions and will accept the grant and then pursue their original intent anyway. So the two parties -- the staff member and the applicant -- end up with different sets of expectations. The proposal is at risk of failure from the outset -- and to the prospect of mutual blame and bitterness.

Assuming that the proposal is funded by the foundation's board, there are three further sins the program officer can commit:

1. **UNDERFUND THE PROPOSAL.** If resources aren't adequate to the task, the proposal should not be recommended for support. It does the grantee no favor to leave him or her stranded in mid-project.
2. **NEGLECT THE PROJECT.** Monitoring a project once it is launched requires a fine sense of proportion. If the project is given too little attention, avoidable difficulties go unaverted and the grant becomes a problem case, with attending unhappiness all around. That is somewhat less likely than the equally unhelpful alternative below.
3. **MICRO-MANAGE THE PROJECT.** The zealous over- management of fiscal or program aspect of grants is an unfortunate element of the RWJF's

management style. On the fiscal side particularly, we drive our grantees to distraction without improving their performance in the least. The Commonwealth Fund over-manages the program side of their grants in much the same way. To avoid this, establish a clear, feasible outcome for the project at the outset, define a work program and budget to achieve that outcome, then back off. The grantees progress can be monitored through regular annual and fiscal reports.

These causes of problem grants -- program officer manipulation, underfunding, micro-management or neglect -- all reflect poor principles of practice and, at base, a poor grasp of professional ethics and responsibility. The essential element in avoiding them is proper communication.

Even with a solid start and regular monitoring, program officers cannot assume that the things will proceed smoothly. Every project will generate its problems -- some internal to the project and some external. Key project staff members will leave, for example, or public revenue sources vital to the project will be cut.

The program officer cannot solve many of these problems. That is up to the grantee. But, as a professional, the officer needs to know about them and to do what he or she can to facilitate solutions that will help the project achieve its major purpose.

As a generalization, the desideratum for a project (excluding one with a predetermined end point, such as a field study and report) is that it will become sufficiently institutionalized so that it can continue independently of RWJF dollars.

Good philanthropic practice, however, involves much more than the attainment of financial self-sufficiency. What matters, in the end, is impact -- whether or not the project has made any difference to the problem it addresses. Here the program officer needs an astute sense of what is significant -- not only the quality of the ideas underlying the proposal but the quality of the people behind the ideas. An officer without the capacity to recognize these qualities is not likely to be creative.

The acquisition of such insight involves wide and continuous reading and study, regular dialogue with experts in the foundation's areas of interest, and the ability to assess realistically what philanthropic interventions can achieve. Creativity, in short, is a cultivated skill, attainable only through continuous effort.

Perhaps the most important ingredient in the creative practice of philanthropy is the ability to seize an opportunity for impact even when the proposed intervention carries a considerable element of risk. Although foundations, by their nature, are uniquely empowered to take risks, they are characteristically cautious, risk-averse institutions.

This paradox has less to do with their trustees than with their staffs. The general doctrine driving staff behavior is the "doctrine of uniform success." A failed grant or a controversial one is too often perceived by the staff and by their peers not as an expected outcome of risk-taking, but rather as bad philanthropy. The hermetic

and mandarin culture governing the norms of professional philanthropy is unforgiving of failure. Any foundation that can change this will be a happier, better, and certainly more creative, institution.

A further issue affecting philanthropic practice is whether the institution will be "proactive" or "reactive." Most are reactive: goals are announced, but the actual content of the grant portfolio is really a formless collection of proposals that, for the most part, come unbidden through the door.

Given the special value of foundation dollars as private investment capital in the public welfare, passive philanthropy of this kind is simply not good enough. Particularly in today's complex, changing and problem-ridden world, the entire field of foundation philanthropy needs to be consciously proactive and constantly seeking out the best ideas, people and institutional systems to advance the foundations' declared goals and programs.

This can be achieved institutionally through the process of formal "calls for proposals" adopted by RWJF, but it is also a responsibility of the individual program officer. Such ideas will generally come from a careful analysis of the literature in his or her program area, through input received during field trips, and other deliberate and conscious efforts to mine for the next valuable idea. Simply relying on inspiration rarely produces an important proposal.

In the period ahead, I believe it will become increasingly essential for foundation philanthropy to develop competence in forging partnerships in order to exert the greatest influence possible in meeting the challenges society is confronting.

Those partnerships will be of two kinds -- new structures and working relationships among human service organizations; and long-term partnerships among funding sources, public as well as private.

But before delving into that subject, let's look at the environment that will dictate this more collegial approach to philanthropy.

E. FUTURE PERSPECTIVES FOR FOUNDATION PHILANTHROPY

In my judgment, the unique institutional attributes of foundations have been validated by the historical experience of these entities and are likely to continue as signal elements of their future potential. Similarly, I am persuaded that the principles of practice that derive from these attributes should serve as dependable guidelines for the operation of future grantmaking programs.

On the other hand, I believe that the actual content of our historical experience will serve us less well as a resource for charting our course for the decades ahead. The past is not prologue for the era we are entering. The lessons learned are not a scripture in which we can have much faith.

This is not simply a pessimistic assumption -- a way of saying, once more, that the pace of change has become so rapid and the problems so different that we cannot predict future events with any confidence, much less equip ourselves to confront them. In my judgment, the period ahead will not be that chaotic.

Forecasting and related contingency planning will still be possible. In fact, it will be essential if, as a society, we are to have any control over our destiny. However, the ability to anticipate the future will continue to remain a vaporous claim of astrologers and self-proclaimed seers unless much more work is done in advancing the science of probability assessment -- not only in the statistical and mathematical domain of economics, but in the more speculative area of public opinion and the related thrust of public consensus and public policy.

While our ability to exercise probabilistic thinking may be primitive, certain phenomena already loom large in our field of vision and do not require sophisticated forecasting. Significant among them are:

- The emergence of a permanent and divisive social class structure in American life -- a massive, alienated, dependent underclass; an increasingly insecure and troubled working class and middle class; and a growing self-absorbed and self-protective upper class. The social experience of each group is very different from the other. The relative scale of access to medical care is one example.
- The emergence of a large population of Americans surviving into their advanced years, placing immense demands upon our medical and human services systems -- demands for which we are not prepared.
- The tragic epidemic of HIV infection, which is the precursor of hundreds of thousands of new AIDS victims who will require complex terminal care.
- The scourge of substance abuse and dependency, manifested not only in climbing crime rates but also in appalling damage to the physical and mental capacities of too many newborns, children, youth, and their parents.
- The frightening prevalence of domestic violence, yielding an incidence of child and spousal abuse unthinkable only a generation ago -- and posing problems to our medical care and social service systems we don't know how to address.

Added to these problems is the seemingly universal failure of our system of public education, which means that the nation will not have a workforce of the quality necessary to maintain a competitive position in the world economy.

These and other problems of similar magnitude (for example, untenable failures in our systems and arrangements for providing health services) are occurring at a time when our resources for dealing with them are diminishing.

In the decades following World War II, which were characterized by a rising GNP and major new public investments in social programs, it was relatively easy for foundations to carve out a role as social entrepreneurs -- venture capitalists for

change. Certainly this was the experience of The Robert Wood Johnson Foundation. We could establish and test an innovative solution to a problem, then frequently see it replicated nationwide under federal legislation. Our program in Health Care for the Homeless is but one example.

In the future, opportunities of this kind may be the exception. It will be much harder to generate public interest in new initiatives, and much harder to mobilize the funds necessary for broad-scale replication.

For the near term, and probably for the long term as well, we are entering a phase not of creating and expanding new structures and programs, but a time of restraint, caution and -- in the face of rising public deficit -- also a time of austerity.

With the problems and needs confronting society less predictable than they were and with resources beginning to contract, what will be the future role of foundations?

The most positive answer is that these conditions provide philanthropic foundations with a fresh and unparalleled opportunity to become a full and visible partner in the American social contract.

The work of our society is conducted through three broad sectors of activity -- government, business and the voluntary or independent sector.

Foundations, manifestly, belong to the voluntary sector, though they seldom think of themselves in that context, and almost never do so in the full context of what that sector is and does in all its aspects. However, since that is the forum in which they participate in the American social contract, they need to acquire a better understanding than they have of its dimensions and values.

The voluntary sector is a vast national enterprise, encompassing, among other institutions:

- 350,000 houses of worship
- 30,000 church-sponsored elementary and secondary schools
- 60,000 nonprofit family and social service agencies
- 1,870 private colleges and universities
- 3,340 short-term general hospitals
- 3,050 voluntary nursing homes
- 2,500 museums
- 1,000 local arts councils.

Altogether, the voluntary sector comprises 1,243,000 nonprofit organizations. In 1986, these organizations employed 7.7 million workers -- more than all civilians employed by the federal government and the 50 states combined. Nonprofit institutions also enlist the time and talents of some 80 million volunteers annually, which is equivalent to another 416,000 full-time workers.

These figures tell us that the voluntary sector plays an extraordinarily large role in our national life -- and a growing one. For example, between 1972 and 1982, philanthropic nonprofit employment increased by 43 percent, compared with a 21 percent increase in the for-profit sector, and a 19 percent increase in government.

While the scale of the nonprofit sector is impressive, its real worth has to be measured by what it contributes to our common welfare. For example, the nonprofit status of some community hospitals is being called into question precisely because of their emphasis on enhancing revenues to the neglect of charitable service.

The pricing of services by nonprofit organizations at levels well below their value is what differentiates them from the for-profit sector and makes them accessible to millions of Americans in need.

Yet, it is exactly their requirement for large-scale charitable funding on an ongoing basis that creates enormous tension between nonprofit service organizations and private foundations -- both of which belong to the voluntary sector.

On the one hand, foundations are loath to be considered sources for meeting the operating budgets of the nation's huge maze of nonprofit organizations. Nonprofits, on the other hand, view foundations as sources of wealth and thus a primary answer to their funding needs.

Before they can exert their potential as social investment enterprises, foundations need to establish an explicit understanding with all other categories of institutions in the voluntary sector. The understanding is simply this: Foundations are not part of general charity but, rather, a special resource in the competition for funds -- that bidding for foundation dollars is not really about money but about ideas.

This message is beginning to be heard, and as this understanding gains currency, foundations are becoming poised as a set of institutions that could bring truly vital leadership to the voluntary sector. The time appears opportune for this to happen. The question is, have we the resources necessary for the task? Most of us in the foundation community have begun to fear that we do not. The particular factor that could fashion these circumstances into an opportunity for foundations is their freedom to help nonprofit organizations target their resources in strategic ways through coalitions and alliances acting in concert on specific problems.

It is true that much of the vitality of the voluntary sector rests in its thriving pluralism. On the other hand, this same pluralism results in considerable redundancy and dissipation of impact. It should be possible to foster common purpose among institutions with similar missions -- service to youth, for example -- without loss of individual identity.

To accomplish this goal, foundations will need to fund the creation of new structures and arrangements to enable nonprofits to undertake mutual assessments of the critical needs in their areas of activity, joint planning and joint programs. A prime example from our own work is the Interfaith Volunteer Caregivers Program,

which has brought together hundreds of local churches in a common program of supportive care for the health-impaired elderly.

That type of effort should prove fruitful in helping our society address more effectively the immense problems that lie ahead. Foundations already have a proven potential for helping public-sector institutions and agencies to initiate similar strategies.

The United States is characterized by an intricate tapestry of governmental jurisdictions and institutions -- not only the tripartite federal branches and their counterparts in the fifty states, but also three thousand counties, each with multiple townships, municipalities, school districts and other taxing authorities.

Virtually every one of these dispersed jurisdictions and the agencies they operate may be involved in some way in addressing the problems affecting our society -- the needs of the elderly, for example, or of children and youth. Yet, they seldom undertake coordinated actions to understand and meet these needs. Our major cities spend tens of millions of dollars annually to help troubled youth through school-based pupil support services, welfare services and child protection services. But the benefit is marginal for the young people concerned and the expenditures are largely wasted because the public entities involved have no structures, incentives, responsibilities or mandates to cross the bureaucratic boundaries that keep them separate.

This is a pervasive public-sector problem in which foundations can make a tangible difference. Given adequate will and leadership on the public-sector side, foundations can provide the one resource those in government can rarely access -- independent and nonpartisan funding for testing and developing new systems and arrangements for cooperative planning, programming and related financing.

We know such things can be done. We've done them. Our work in mental health services for youth, for example, rests in interagency cooperative agreements at both the state and local level. Also in the mental health field, we are helping states consolidate services and funding under new special-purpose authorities.

We are experienced and accomplished in creating coalitions within the voluntary sector and the public sector. It would appear to follow, therefore, that we can also help generate alliances involving both sectors.

Moreover, foundations are well positioned to engage the for-profit sector of our society in alliances that can be formed among voluntary and public-sector entities. For-profit enterprise is well aware of its huge stake in the success of voluntary and governmental missions to address human service needs -- like infant growth and development, family preservation, schooling, and health surveillance and care. At both the local and national levels the participation of the for-profit sector in the reforms required in the way human services are produced and financed is essential to progress.

In postulating -- indeed advocating -- foundation leadership in pooling the

resources of the three parties to the American social contract (voluntary, governmental and for-profit), I am talking about much more than the facile concept of public-private partnerships. Rather, I am advocating structural reform in the way we perceive and approach the problems that are confronting us already, or that are looming on the near horizons of probability.

In terms of perception, we need to realize that all of us must accept moral ownership and responsibility. It is not the problem of government alone, business alone or nonprofits alone -- it is the problem of all parties, and all must join in the search for viable solutions.

Although reason, experience and conviction may tell us this is a role that should define the future of foundations, there is evidence calling into question whether they are prepared to grasp the opportunity.

Before foundations can expect other institutions to believe that they own a problem in common and must work in common to respond to it, they must be willing to accept the belief themselves. Sadly, this is not a prevalent attitude, particularly among the large national foundations. They function too much as medieval fiefdoms, each so jealous of its autonomy, so protective of its repute, that mutual initiatives to address problems in concert are exceedingly rare. Joint committees of trustees or staff are seldom formed to look at issues -- and when joint funding occurs, it is almost always by coincidence and not by plan; project-specific and not strategic.

To be sure, there are genuine disincentives to promoting cooperative philanthropy -- most of them stemming from the myth of foundation power and influence that remains very much alive in populist circles. The imagined conspiratorial "foundation interlock" setting and controlling the public agenda has not vanished. Nor has the still more ludicrous perception that foundations are, in fact, a "secret government" operating to subvert the democratic process, faded away.

To be fair about the insularity characterizing national foundations, it should be admitted that fear of charges of this kind probably explains their reluctance to engage in collaborative efforts. As one foundation trustee told me when I was starting our Community Care Funding Partners Program: "Collaboration can be viewed as one step away from collusion."

Fortunately, at the local and regional levels foundations are much more willing to work in concert on salient issues and to foster and participate in coalitions to address them.

I am persuaded that by joining with local and regional grantmakers, national foundations have their best opportunity to shape a future role for philanthropy as a catalyst for long-term strategic alliances among helping institutions. The Robert Wood Johnson Foundation has established this approach as a principal feature of its grantmaking.

Our Fighting Back program and our Local Initiative Funding Partners Program are

two examples among several.

To the extent that our foundation can interest other national foundations in adopting a similar approach to programming -- or better yet, in joining us in funding local coalitions of grantmakers and service institutions -- RWJF will emerge as a pacesetter in modern philanthropy.

We have only to seize the day.

4/95

F. AFTERWORD: What Makes a Foundation Great?

At a recent staff meeting on the subject of philanthropy, Terrance Keenan, special program consultant to RWJF, offered some observations on what makes a foundation great. Keenan was vice president for special programs at RWJF from 1972 to 1990. Before joining RWJF, he worked at The Commonwealth Fund and the Ford Foundation. In 1993, Keenan was honored by Grantmakers In Health with the establishment of the Terrance Keenan Leadership Award in Health Philanthropy.

According to Keenan:

- A great foundation is informed and animated by moral purpose.
- A great foundation accepts responsibility and stewardship for pursuing these purposes.
- A great foundation walks humbly with its grantees -- it acknowledges that their success is the instrument of its own success.
- A great foundation is deliberate. It is guided by judgment. It acts where there is a need to act. It takes necessary risks -- and proceeds in the face of great odds.
- A great foundation is a resource for both discovery and change. It invests not only in the identification of answers, but also in the pursuit of solutions.
- A great foundation is accountable. It functions as a public trust -- and places its learning and experience in the public domain.
- A great foundation builds investment partnerships around its goals, creating coalitions of funders -- public and private -- to multiply its impact.
- Conversely, a great foundation participates in funding coalitions being organized by other parties to lend its support to purposes requiring multiple funders.
- Finally, a great foundation is self-renewing. It adheres to a constant process of self-reflection and self-assessment. It knows when it needs to change and to adopt measures to improve its performance.

