



Family MATTERS

a publication of the COUNCIL ON FOUNDATIONS

Foundation Accountability

Spring 2004

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Save the Date
2005 Family Foundation Conference
Miami, Florida January 23-25, 2005

Message from Family Foundation Services Managing Director Karen Green

Welcome to the next generation of *Family Matters*.

For well over a year now, *Family Matters* has been the only Council on Foundations newsletter still produced in print format. After discussion with our members, *Family Matters* has decided to convert to an electronic format as so many other nonprofit associations have done. News and information from the Council will reach you more quickly and be fresher and more relevant.

We hope this format provides you with easy-to-use insight into both the field of family philanthropy and the work of the Council on Foundations. However, we know change can be uncomfortable, so we are soliciting both your patience and assistance in ensuring that this new electronic *Family Matters* finds a comfortable home within your family foundation. Please feel free to contact us with any questions, concerns, story ideas, or news items you wish to share, at 202-467-0407 or to family@cof.org.

Why Accountability Matters

Accountability: (noun) the quality or state of being accountable [answerable/explainable]; especially: an obligation or a willingness to accept responsibility or to account for one's actions. [Merriam-Webster]

It has been over five years since *Family Matters* last reported on accountability and ethical behavior (see *Family Matters*, Winter 1999 - "Family Foundation Ethics"). The definition hasn't changed in that time, but family philanthropy certainly has. The number of family foundations has grown from about 18,500 to more than 29,000 in those short years, and represents over 50 percent of private foundations (according to 1999 and 2002 data from [The Foundation Center](#)). This diverse group of families and their foundations have gelled into an influential force and, like any influential group, it aspires to standards of excellence, and methods to address its successes and failures.

Council on Foundations' research on family foundations indicates that best practices is their second highest priority after emerging news. They wish to address issues such as generational continuity, evaluation of foundation and grant performance, professionalism of board and staff, and public transparency. And while all foundations are unique in their origin and operation, preserving the integrity of the philanthropic field requires that common parameters are adopted for conducting our work.

Senate to Probe Family Foundations

Senate Finance Committee Chairman Chuck Grassley (R-Iowa) [will hold a committee hearing](#) on June 22 on tax-exempt organizations, including family foundations. Sen. Grassley will examine charities accommodating tax shelters, and current problems and issues in the charitable community. He hopes the hearing will serve as a basis for

possible legislation to address governance and best practices in charities.

"Lately, more and more tax problems involving charitable giving have come out," Grassley said in a statement. "Our oversight should include which transactions are in keeping with the intent and spirit of the tax code, which may be inappropriately exploiting charities' tax-exempt status, and which may be unfairly enriching individuals and corporations."

Grantees Call for Greater Foundation Effectiveness

Sen. Grassley isn't the only stakeholder calling for greater accountability. Two new studies reveal that foundations are falling short in the eyes of grantees in grantmaking effectiveness. The reports by the [Center for Effective Philanthropy \(CEP\)](#) and The Urban Institute's [Center on Nonprofits and Philanthropy \(CNP\)](#) strongly suggest that accountability for foundations should mean more than complying with federal and state regulations. Foundations must actively answer to grantees as well as all grant applicants, the public and the media.

The two studies, both released earlier this year, found that:

- Foundations must make necessary investments in administrative expenses to remain effective as grant makers; support the development of program officers and other foundation staff; and maintain a consistent focus and direction, according to CEP's study, "Listening to Grantees: What Nonprofits Value in Their Foundation Funders." The CEP study surveyed more than 6,000 grantees of 30 large foundations representing nearly \$24 billion in total assets.
- A significant number of foundations fail to collaborate with external groups, conduct needs assessments of their field or community, or even evaluate the effectiveness grants, according to CNP's study, "Attitudes and Practices Concerning Effective Philanthropy." The CNP study was drawn from nearly 1,200 foundation respondents.
- Foundations must do a better job explaining to the media, the general public and grantees what they do, how they do it, and their impact on the community, according to the CNP study.

An Interview with Andras Kosaras, Director, Ethical Practices and Philanthropic Outreach at the Council on Foundations

Although the definition of accountability is straightforward, achieving it is far from simple. In thinking about developing an accountability strategy, family foundations must ask themselves the following questions:

- What does accountability mean to my foundation and to my family?
- How do I balance the privacy I sought by starting a private family foundation with

the need for transparent accountability?

- If my family foundation is falling short of accepted standards of accountability, how can we improve?
- What are my long-term goals for developing foundation accountability plans?

To find the answers to these questions, we sat down with Andras Kosaras, attorney and director of the Council's Ethical Standards and Philanthropic Outreach department and a partner in the development of the "[Building Strong and Ethical Foundations: Doing It Right](#)" initiative. Through this program, members of the Council on Foundations are leading their peers in an initiative to:

- Discuss and examine key issues of foundation governance, ethical standards, and responsible stewardship in the foundation community
- Develop new guiding principles and governance standards for foundations
- Build partnerships with state and federal regulators to call a halt to illegal practices
- Communicate the value of philanthropy to the public and to lawmakers and regulators

Where were you before you came to the Council?

I was at Harvard University's Hauser Center for Nonprofit Organizations researching issues of governance and accountability for charities and assisting Marion Fremont-Smith in the completion of her book, [Governing Nonprofit Organizations: Federal and State Law and Regulation](#). While I was there, we also co-authored an article that appeared in the Exempt Organization Tax Review titled "Wrongdoing by Officers and Directors of Charities: A Survey of Press Reports 1995-2002."

What are your responsibilities now?

My primary focus is developing and implementing the Council's initiative "Building Strong and Ethical Foundations: Doing It Right." The focus is on developing new guiding principles and governance standards, intensifying professional development and outreach about strong legal and ethical governance practices. Through this project, the Council on Foundations, and its members, intend to become a hallmark for legal and ethical practice in philanthropy.

This project is really about Council members leading their peers. Over the coming months the Council will be asking family foundations to look at new guiding principles and governance standards for family foundations. The Council will also focus on working with its members to communicate the value of philanthropy to the public and to lawmakers. We'll also be working with regulators to help bring a halt to illegal practices.

Is this a new project for the Council?

Yes, but while the project is new, family foundations have already undertaken considerable work on similar issues and even on this program itself. The Committee on Family Foundations has already begun working on [draft principles and practices for family foundations](#). This draft formed the basis for discussions among family foundation representatives in recent months in a multi-city "Listening Tour." Further, at the most recent Family Foundation Conference in New York, the largest such event ever, issues of standards, openness and accountability were central to many of the discussions. [[see Poll Results](#)]

Aren't family foundations already accountable?

In some ways. For example, Form 990, the annual information returns that foundations file, has been available for public inspection since 1950. With the advent of the Internet and through the work of [GuideStar](#), information returns are now more accessible than they have ever been. Unfortunately, Form 990 is not a particularly good communications tool and does not capture the totality of what a foundation does. But unless a foundation makes an effort to report more fully on its activities, that is all an outside observer may see. Societal attitudes evolve and the balance has been toward greater openness and reporting. In this environment, foundations really need to think about voluntarily making information readily available beyond what is legally required.

What are some of the bigger threats to family foundations regarding accountability?

In light of recent media attention highlighting alleged abusive practices by private foundations and public charities in general, excessive and overbearing legislation seems to be the most feared.

In my view, the greater concern is that if foundations feel under siege, they will retract from a forceful expression of their values to society. Foundations are an instrumental and creative force in society. They are not just vehicles for funding science, education, arts, social services and a multitude of other activities. We should resist equating the full measure of foundations with their economic value. As others have advocated, foundations also serve an expressive function that plays a part in weaving the fabric of a democratic, free society.

What immediate steps can a family foundation take to improve its accountability?

The very first step is making sure the foundation satisfies all of the legal requirements. Beyond that, make a commitment to learn more about industry-wide practices and trends. Consider where legal issues end and

ethical issues pick up. As one long-time observer of corporate governance put it, don't just attend to duties of loyalty and care, exercise your "duty of curiosity."

Can foundations self-regulate for accountability?

Critics dismiss self-regulation as an ineffective tool to prevent abuses. However, self-regulation is a necessary part of the regulatory framework. Demonstrating that self-regulation works is part of what foundations can do to ensure continued accountability and restore public confidence in the sector.

Surveying Grantees Improves Accountability

Even smaller foundations can conduct inexpensive grantee surveys. The [Charles and Lynn Schusterman Family Foundation](#) in Tulsa, Okla., polled all 269 nonprofits that applied for or received a grant from the foundation in the first five years of its existence (it opened in 1994), 137 organizations with similar missions or fields of interest to the foundation and 195 local leaders. Follow-up interviews were conducted with 27 nonprofits that responded.

"Charles Schusterman saw the first five years of the foundation as a period of experimentation to get a sense of the field," explains Sandy Cardin, executive director of the foundation. "After that, we wanted to find out how we were doing. Were we too rigorous, or not rigorous enough? Were applications being handled in a uniform manner?"

The foundation was pleased with the results. Even rejected applicants said the Schusterman Foundation was courteous and respectful. However, the survey revealed that the foundation wasn't well known among community leaders. That was surprising, because the Schusterman family business has one of the highest public profiles in Tulsa, says Cardin.

"People didn't know the connection between the business and the foundation," he says. The Schusterman Foundation's surprisingly low profile is in line with the CNP report, which urged foundations to publicize themselves better.

Five years after its first survey, the Schusterman Foundation plans to interview nonprofits, like-minded organizations and community leaders again this year to assess its progress. Cardin wants to compare the new results to the CEP study so he can compare the foundation to other foundations with similar asset size.

In San Francisco, two foundations [surveyed](#) 70 grantees in 2002 to gauge their perception of Bay Area foundations. The [Pottruck Family](#) and [Fleishhacker](#) Foundations learned that the grantees uniformly praised area foundations, but did have a list of

suggestions. They included:

- Simplifying the grant-seeking process. Guidelines and application materials needed to be more specific and downloadable from foundation Web sites.
- Improving communications. Just 54 percent of respondents said that foundations returned phone calls in a time manner and only 57 percent conveyed the status of pending proposals.
- Making site visits. Only 24 percent said that foundations make site visits, although 91 percent of the respondents said they were an effective way for foundations to learn about grant seekers.

As a result of the survey, the Pottruck Family Foundation now responds to any applicant within one week, whether the nonprofit is approved or not. "And we're paying much more attention to our Web site by updating it regularly," says Pottruck Executive Director Nancy Wiltsek.

Adds Fleishhacker Executive Director Christine Elbel, "There remain long-standing problems with how foundations treat grantees and applicants. There are still too many times when proposals languish, when applicants are asked for excessive information, and when they do not hear the results of the funding decision. Both Nancy and I have increased our efforts to be accessible, informative about our review processes, and forthright in our discussions with the field."

Tips for Surveying Your Grantees

- Keep all responses anonymous to encourage frank and honest responses.
- Collaborate with other foundations to get a broader perspective in framing the survey questions, and in its distribution, says Elbel. "I'd encourage a focus group or follow-up meeting with respondents who wish to discuss the issues raised," she says.
- Avoid raising programming questions, says Cardin. "If you ask where foundations could make a greater impact and if the responses are not where your foundation wants to go, you can create another problem," he says.
- Share the results as broadly as possible in grant-maker forums and publications, and with your board, says Elbel. The Fleishhacker and Pottruck foundations summarized the results of their survey in an Association of Small Foundations newsletter, and on their Web sites.
- Post the survey online. There are several good online survey sites, says Wiltsek. "That way you can get the data and the reports organized in a much easier fashion and people are more willing to respond because there's another level of anonymity."
- Notify grantees beforehand so they will expect the survey. "Give them the opportunity to expand on their answers," he says.

Finally, tell grantees the results of the survey and the changes you plan to make based

on their responses. Your answers will demonstrate your accountability and your grantees will appreciate it.

Resources for Improving Foundation Accountability

Please note that some Council on Foundations Web site resources require users to log in.

Legal Resources

Print publications:

[Family Foundations and the Law: What You Need to Know](#)

[The Top 10 Ways Family Foundations Get into Trouble](#)

[Rules of the Road: A Guide to the Law of Charities in the United States](#)

[Foundations and Lobbying: Safe Ways to Affect Public Policy](#)

On the Web:

[IRS Publication 557 - Tax Exempt Status for Your Organization](#)

Ethics Resources

Print publications:

[Ethical Choices for Family Foundations](#)

[Responsible Family Philanthropy: A Resource Book on Ethical Decisionmaking for Family Foundations](#)

On the Web:

[Recommended Principles and Practices for Effective Grantmaking](#)

[Stewardship Principles and Practices for Family Foundation](#)

[Institute for Global Ethics](#)

[National Committee for Responsive Philanthropy](#)

Grantmaking Resources

Print publications:

[Best Practices in Grants Management](#)

[Beyond our Borders: A Guide to Making Grants Outside the United States](#)

[Expenditure Responsibility Step-by-Step](#)

On the Web:

[Complying with Counter-Terrorism Measures in Grantmaking](#)

[Grants Managers Network](#)

Foundation Management Resources

Print publications:

[Grantmakers Communication Manual](#)

2003 Grantmakers Salary and Benefits Report [Book](#) or [CD-ROM](#)

[Foundation Management Series, 10th Edition, Vol 1: Finances, Portfolio Composition, Investment Management and Administrative Expenses in Private Foundations](#)

On the Web:

[Determining Reasonable Compensation for Foundation Directors and Trustees](#)

[Recommended Best Practices in Determining Reasonable Executive Compensation](#)

[Foundation Management Series, 11th Edition: Board Reimbursement and Compensation](#)

[2003 Salary Report Tables: Private Foundations](#)

[Center for Effective Philanthropy](#)

The Family Foundation Services Department is here to assist you. Please contact us at 202-467-0407 or by email: family@cof.org with any questions you have.

Family Philanthropy Notes

Institutes for New Grantmakers and New Board Members

The Council on Foundations is offering new foundation staff and board members customized workshops on philanthropy basics. Respected leaders provide an in-depth look at foundation work and help attendees gain strategies to succeed in their new role and help their foundation thrive. We offer these workshops twice a year - once on the East and once on the West Coasts.

[2004 Summer and Winter Programs: New Perspectives, Strategies and Connections](#)

Institute for New Grantmakers Institute for New Board Members
Establishing a New Foundation

July 18-21

Crown Plaza Hotel
San Francisco, CA

December 6-9

Council on Foundations Conference Center
Washington, DC

For more information email summerinstitutes@cof.org or call 202/467-0423. For information on the Winter program in Washington, DC, or general questions, please email [Sophie Dunbar](#).

Call for Inclusive Practices from the Field

The Council on Foundations' Committee on Inclusiveness is developing a screening tool to help determine the inclusiveness and diversity of organizations applying for grants. This project came about because of the many inquiries we have received about such an instrument.

The Committee on Inclusiveness has hired Diana S. Newman to design the product(s). Diana is the author of [Opening Doors: Pathways to Diverse Donors](#), published in 2002 by Jossey Bass and winner of the 2003 AFP/Skystone Ryan Prize for research about fundraising and philanthropy. She was also one of the authors of [Cultures of Caring: Philanthropy in Diverse American Communities](#), published by the Council on Foundations in 1999 and sponsored by the Ford, W.K. Kellogg, and David and Lucile Packard Foundations.

This notice is directed to CEOs and program officers of community, corporate and private foundations to ask for help in two ways.

1. Please send us copies of instruments (questionnaires, matrices, charts, letters, etc.) that you have used to determine the level of inclusive practices of grant applicants. Even if your documents are still in development, please forward what you have.
2. Please share your thoughts about would be the most helpful format for such an instrument and the ways in which you might use it.

We plan to have this project completed in the spring so your prompt response is needed and very much appreciated. Diana will read every submission as part of her research in this area and will give attribution to you for your good ideas unless you request anonymity.

Please send your submissions directly to Diana (Diana@DianaNewman.com) with a copy to Steve Parsons, Director, Affinity Group Services and Inclusive Practices at the Council on Foundations (parss@cof.org).

Calendar

June 24-25, 2005

Affinity Group Network National Conference
COF Conference Center, Washington, DC
Contact: [Steve Parsons](#), 202-467-0398

July 18, 2005

[Institute for New Board Members](#)

Crown Plaza, San Francisco, CA
Contact: [Ellen Bryson](#), 202-467-0438

July 19, 2005

[Special Seminar: Establishing a New Foundation](#)

Crown Plaza, San Francisco, CA
Contact: [Sophie Dunbar](#), 202-467-0423

July 19-21, 2005

[Institute for New Grantmakers](#)

Crown Plaza, San Francisco, CA
Contact: [Sophie Dunbar](#), 202-467-0423

About *Family Matters*

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Contact the [Family Foundation Services Department](#) (202-467-0407) for permission to reprint or for general inquiries.

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