

Università Cattolica del Sacro Cuore

CRC - CENTRO RICERCHE SULLA COOPERAZIONE
E SUL NONPROFIT

WORKING PAPER N. 7

**Exploring the talk-action gap:
a qualitative investigation
of foundation practices
over three regime types**

Stefan Einarsson - Jasmine McGinnis -
Hanna Schneider



V&P VITA E PENSIERO

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Abstract

For some scholars and practitioners the unique organizational characteristics of foundations allow them to play a major role in society as innovators and risk takers and as powerful agents of change (Anheier & Daly, 2007). For others, foundations are in theory thought to be powerful actors, but in practice do not live up to their potential due to the seemingly ad hoc nature of their grantmaking decisions (Arnové, 1982; Karl & Katz, 1987; Porter & Kramer, 1999; Frumkin, 2006). In this paper we ask who, what and why do foundations learn from and does this differ across countries? We seek to understand whether foundations grantmaking behaviors are or are not responsive to changes in their environments, their internal operational systems and/or changes in foundation leadership. To address these questions we conduct qualitative interviews with 9 foundations across three countries active in social services. We find that the ability of many foundations to change their grantmaking strategies is highly influenced by a set of ‘imprinting forces’ which constrain their future grantmaking flexibility. We also find that across countries board members play the strongest roles in changing grantmaking priorities.

JEL codes: L31 - Nonprofit Institutions; NGOs

Keywords: L10 - Market Structure, Firm Strategy, and Market Performance (General)

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The “Workshop on foundations” is a joint effort of the “Dipartimento di Scienze economico-sociali e matematico-statistiche of the University of Torino” and the “Centro di Ricerche sulla Cooperazione e sul Nonprofit of the Catholic University of Milano”. The “Workshop on foundations” grants research fellowships through the “International Research in Philanthropy Awards (IRPAs)”, supported in 2011 by the Centro di Documentazione sulle Fondazioni of Torino.

1. *Introduction*

Private foundations are characterized by a combination of organizational characteristics (such as no members/owners, low external accountability and endowments), which differentiate them from other actors within the nonprofit sector and also from other organizational forms. These characteristics are thought to allow foundations the opportunity to fulfill unique functions and roles within society (Salomon & Anheier, 1997; 2007). For some scholars and practitioners the organizational characteristics of foundations allow them to play a major role in society as innovators and risk takers, as powerful agents of change (Anheier & Daly, 2007). For others, foundations are in theory thought to be powerful actors, but in practice they would not live up to their potential (Prewitt, 1999; Tayart de Borms, 2005; Prewitt, 2006; Fleishman, 2007). In fact, many criticisms of foundations surround the seemingly ad hoc nature of decisions and the lack of a coherent set of goals and operational strategies (Arnové, 1982; Karl & Katz, 1987; Porter & Kramer, 1999; Frumkin, 2006). This stream of literature implies that foundations could achieve greater performance and better fulfill their unique roles if they on the one hand had a coherent set of goals and on the other hand would better implement their articulated goals.

Organizational studies literature provides an opportunity to develop a framework examining how the strategic process within foundations unfolds. Using Mintzberg's (1978) conceptualization of strategy

formation we find that for foundations, the process is not linear, as existing strategy literature both implies and suggests. Rather, the strategy formation process within foundations is synonymous with Lindblom's (1959) concept of "muddling through". We conduct qualitative interviews with large¹ private foundations in three different countries, embedded in three different welfare regimes: Sweden (Scandinavian regime), Austria (corporatist regime) and the United States (liberal regime). We conduct this analysis across regime type to determine how foundation strategy formation may differ across countries, while also determining other environmental and leadership factors identified in Mintzberg's (1978) framework. Our research creates a framework of the factors that in our interviews, but we believe that also beyond our sample influence foundation strategy formation and analyze how this may vary across regime types. This framework can advance nonprofit literature by providing a better understanding of how strategy evolves in practice, across regime types, and also sheds light on various factors that have an impact on the strategy formation process in foundations.

¹ We focus on large foundations in this study because we hypothesize that the largest funders will have more explicit understandings of strategy.

2. Literature Review

2.1. Philanthropic Strategy Literature

Within philanthropic literature there are many definitions of strategy. Most definitions indicate that strategy connects espoused goals to organizational activities. Porter's and Kramers (1999) definition indicates that strategy is "a definition of its distinctiveness and a discipline that dictates every aspect of the organizations operations" (p. 125). Scholars who begin their research with this definition suggest that those organizations that can explicitly state and implement their planned (or intended) strategies are higher performers, typically related to an increase in the organizations' profits.

However, when it comes to understanding the formation and impact of foundation strategies (which don't have an easy measure of performance such as profit in a for-profit organization), perspectives differ. On one hand, studies seem to acknowledge the difficulty foundations have forming strategies, primarily related to the lack of learning and feedback in philanthropic decision making (Bolduc, Buteau et al., 2007). Yet despite this acknowledgment, scholars still advocate that foundations should form explicit strategies and a priori decisions in order to enhance accountability and effectiveness of their grant-making (Boulduc, Buteau et al., 2007; Fleishman, 2007). Although these types of prescriptions are rampant in foundation literature, a recent Center for Effective Philanthropy report finds that most foundations don't connect their goals to their decision processes (Bolduc,

Buteau et al., 2007). This report finds that although foundations have written documents extolling goals and ways to meet those goals they don't evaluate their achievement of these goals and instead rely on anecdotal evidence to support their claims of success. These results are consistent with most empirical studies in nonprofit management, which find that many nonprofit organizations do not use strategic planning (see e.g. Jansson & Taylor, 1978; Crittenden, Crittenden et al., 1988; Odom & Boxx, 1988; Jenster & Overstreet, 1990; Wolch, 1990; Tober, 1991).

The literature on the realities of foundation strategy formation is very much just beginning. The assumption and prescriptions in existing literature is that foundation strategy formation is a deliberate and intentional process, which is planned in advance and needs to be implemented during grantmaking decisions and checked through evaluation. However, our research indicates (similar to the Center for Effective Philanthropy's 2007 report) that deliberate and intentional strategy which is then implemented is not a regular occurrence.

Therefore, it becomes necessary to conduct research on the realities of strategy formation and to understand what factors impact the ways foundation strategy is formed.

One factor which sets foundations apart from other organizational forms is the foundation deed which is in most cases stipulated with an perpetual mission in mind and thus influences (to various degrees in different countries) the potential flexibility of foundations to ad-

just or change their strategies subsequent to founding. It is this specific fact that relates a foundation's possibility to adjust, change or remain non-responsive to their environments. Thus we make the point, which is in accordance with literature on strategic change that a foundation's initial deed/conditions at founding are strongly affecting the post-founding decision making flexibility of foundations. Against this backdrop we are interested in how foundations respond to events in the external and internal environmental, taken into consideration the foundations conditions at founding. These are questions that have not been dealt with in foundation research so far.

2.2. Strategy as “a pattern in a stream of decisions”

It is important to note that although a lot of management literature has focused on organizational responses to environmental or internal changes, there are several perspectives on organizational responses to (changing) environments. Many organizational theorists find that organizations are not responsive to either environmental or internal changes. This is often conceptualized as ‘strategy as inertia’ (Stinchcombe, 1965; Hannan & Freeman, 1977; Boeker, 1989; Hannan & Freeman, 1989). One reason that organizations may choose not to respond to external or internal factors is based on the constraints the organizations initial strategy has on their ability to make future changes or adjustments. In this way initial strategies are conceptualized as “imprinting forces” (Boeker, 1989). We posit that both social

and economic conditions at founding as well as the founder and their initial decisions affect the future organizational trajectories and provide a partial understanding of subsequent grantmaking decisions.

While inertia and adjustment in strategy are mostly seen as mutually exclusive, few attempts in literature exist which try to combine and integrate both seemingly paradoxical views in one model (Boeker, 1989). As a framework for this paper we posit that it is not that foundations are unable to adapt to their environment nor are they absolutely free in their choices. Instead, we take a stance in the middle, arguing that they are limited in their grantmaking choices primarily due to conditions at founding, such as the role of the founder, welfare regimes or civil law regulations which result in a more or less rigid foundation deed. It is within the borders of the initial mission and foundation deed that foundations are able to shape their future grantmaking strategies.

In order to explore what influences foundation grantmaking strategy formation we turn to organizational theory. Although many scholars concentrate solely on which environmental or internal factors lead to adjustments in strategy we primarily rely on work by Mintzberg who developed an integrative framework. Mintzberg's perspective about how organizations form strategies can be seen as a reaction against the paradigm of strategy as planned at the same time as it has room for the factors which Boeker (1989) calls imprinting forces.

Mintzberg defines intended strategy as (a) explicit, (b) developed consciously and purposefully, (c) made in advance of the specific decisions to which it applies. Mintzberg proposes that a more fruitful way of researching strategy and strategy formulation is to examine what he calls realized strategy. Instead, what Mintzberg proposes is a more fruitful way of researching strategy based on the perspective of strategy as a pattern in a stream of decisions. This is defined as a pattern in a stream of decisions where a decision is defined as a commitment to action which in turn is usually seen as a commitment of resources. When a sequence of decisions in some area exhibits a consistency over time, a strategy will be considered to have been formed. This perspective on strategy can be seen as a reaction against the paradigm of strategy as planned, what Mintzberg (1978) calls intended strategy. The intent of studying how strategy is formed rather than studying the planning process of strategy formation is akin to Lindblom's (1959) aim for scholars to better understand 'muddling through', in order to offer more contextualized solutions to enhance organizational decision making.

According to Mintzberg (1978) strategy formation is dependent upon three interrelated forces: (a) the environment; (b) the internal organizational operating system; and (c) a leadership whose role is to mediate between the environment and the internal organizational operating system in order to let the organization adapt to or change its environment. Strategy can then be viewed as the set of consistent beha-

vivors by which the organization establishes its place in its environment (for a time), and strategy formation is the result of the organizations response to environmental change constrained (or enabled) by the internal organizational operating system and accelerated or dampened by the leadership. That the operating system tries to stabilize its actions can be well explained by the theory of cultural institutionalizations, which argues that the longer an organizations exists the more path-dependency evolves and the less the degree of critical evaluation and modification of behavior.

In order to adapt Mintzberg's (1978) framework for our study of foundations (as his research primarily focused on profit companies) we have to define the environment, organizational operating system and leadership in philanthropy terms. Therefore, we conceptualize the environmental factors that affect strategy formation as the legal system (civil law, associational law and tax law), the welfare regime, actual and potential grantees and peer networks of the foundation. The internal operational system of the foundation consists of criteria and policies regarding grantmaking, evaluation systems and different technical systems used in the decision process. The leadership function of the foundation consists of board members and executive staff while we would place more administrative or junior staff within the operational system.

In addition to the factors that may affect strategy formation, we also study how these factors may impact the strategy formation process

(which partly can be seen as organizations' response to these particular factors), adapting Mintzberg's (1978) definitions of the strategy formation process. According to Mintzberg, strategy formation follows a life-cycle, with periods of continuity and periods of smaller and larger changes. In his theory he further distinguishes 5 forms of change. Incremental change is when strategies are formed gradually in steps, which might be taken without assessment of what the next step might entail. This might result in a strategy, which the strategist never would have chosen if it had been taken in one step. This kind of strategic development is common when the operating system is strong and leadership is weak. Piecemeal change is when some strategies change while others remain constant. Grafting change entails adding new pieces to an existing strategy while avoiding any fundamental changes in it. Global change is when many strategies change quickly and in unison, often aiming at creating a gestalt strategy which often is very difficult to conceive and execute successfully. Lastly there is groping change where there is no clear strategic direction and strategy formation is more characterized by randomness. We use Mintzberg's constructs as starting points and try to adopt them to our specific research goal.

While Mintzberg separately defines incremental change, grafting change and piecemeal change, we group these terms together to indicate a small change in the strategy formation process. We further conceptualize large change as in between of global change and pie-

change since true global change often is difficult to achieve for a foundation since it typically is bound to its original deed and mission. We furthermore conceptualize groping change as a period where there is no clear direction, similarly to Mintzbergs (1978) definition of groping. Finally we integrate continuity in our framework, in the same way as Mintzberg (1978), as a period in the strategy formation process where the organization continues to do what it has been doing. Although this may not seem to be part of a strategy formation process, making the choice to ‘not respond’ to particularly changes in environmental, operational or leadership factors also constitutes a choice about the organizations strategy.

2.3. Three nonprofit regimes

Above we have described strategy formation as a pattern in the organization’s response to environmental changes constrained by the internal organizational operating system and accelerated or dampened by the leadership. In our framework and the interviews we accounted for the fact that the nonprofit sector in which a given foundation is embedded can have a profound effect on its strategy formation process, by enabling certain choices and constraining others. In order for us to study the impact of the environment and to specifically see whether different nonprofit regimes have different effects on foundation strategy, we have chosen to study foundations active in

social services from three different nonprofit regimes. Below we give a quick overview of the three nonprofit regimes.

It is obvious that different countries have chosen to construct the borders between the sectors in society in different ways which has the effect that the nonprofit sectors have a different size, structure and function. This construction has often been in response to broader changes in political and economic currents. This set of norms and rules of how society should be organized can be described with Esping-Andersens (1990) words as a “regime” and its characteristics can be understood by examining its “social-origins” (Salamon & Anheier, 1998). It is also obvious that the borders between the different sectors are porous and that they change over time, which has implications for the foundation sector. Today it is mainly the shrinking welfare state that has an impact on foundations, partly due to decreasing support but also through an increase of tasks since the state is pulling back (Anheier & Daly, 2007).

2.3.1 The Scandinavian model

The Swedish, and the Scandinavian, nonprofit sector is according to the John Hopkins project characterized by a number of specific factors (Salamon & Anheier, 1996; Lundström & Wijkström, 1997; Salamon, 2004). First and foremost the sector is dominated by member based associations whose members volunteer their time and the organizations are mainly working within the fields of sports and advo-

cacy. This is salient in the revenue structure of the Swedish nonprofit sector where membership fees and volunteer work dominates and where grants from state and municipal sources lag behind. These characteristics are mirrored in the broadly encompassing welfare state which has developed in the Scandinavian countries which has lessened the need for nonprofit activities in the areas of health care, education and social welfare, even though this has been loosened up during the last decade (Svedberg, 1993; Wijkström & Lundström, 2002). This means that even if the Swedish nonprofit sector is one of the largest in the world, there are comparatively few employees in combination with relatively little public interest in foundations. The Swedish nonprofit sector is mainly based on members volunteering their own time working with voicing concerns.

2.3.2 The Anglo-Saxon model

The United States, Great Britain and Australia shares a common history and similar legal and economic systems where a comparatively small state relies on private charitable initiatives. The nonprofit sector fills an important role in this model as a provider of welfare services which leads to it having a substantial amount of employees (Kendall, 2003). In contrast to the popular myth that the nonprofit sector is financed through private charity in these countries the most important source of revenue is fees from patients and students, and at the same time there is a strong reliance on volunteers (Salamon, 2004). In the Anglo-Saxon model foundations are working parallel to the state and they are seen as a protection for minorities and as alterna-

tives to the preferences of the majority (Toepler, 2007). Because of their special legal construction foundations are able to support controversial issues and Leat (2007) even posits that foundations in Great Britain fill an important role as societal innovators since they are able to experiment with different techniques which if successful are possible to transfer to the state or market sector.

2.3.3 The corporatist model of continental Europe

The nonprofit sector is generally large and has a substantial amount of employees. Over half of the revenues of the sector come from the state and the majority of the employees work in the fields of health care, education and social services. Just as in the Scandinavian countries strong political pressures led to a more developed welfare state than in the Anglo-Saxon countries, but choose another method of delivering those services. Partly due to the strength of organized religion the state choose, or was persuaded, to organize welfare functions through the nonprofit organizations instead of deliver those through the state which resulted in a strong partnership between the state and the organized nonprofit sector (Salamon, 2004). In this model foundations are part of the welfare system and hospitals and schools are operated as foundations. The foundations are mostly seen as a complement to the state, but a changing perception of the state's role combined with shrinking recourses has led to more and more tasks are being delegated to foundations.

2.3.4 Juxtaposition of the 3 nonprofit regimes

Both Sweden and Austria have legal systems inspired by Roman law whereas the United States has a common law system. We thus expect that foundation deeds and missions will be more rigid in Austria and Sweden than in the United States. Additionally, the role of the state and the nonprofit sector differs in each of the three countries. In Sweden the nonprofit sector plays a very small and complementary role and the few nonprofit actors in the field of social service were created before 1950. We thus expect the foundation strategies to relate to the state in a complementary and maybe reactive way. In the United States the nonprofit sector fills an important role as a provider and funder of welfare services and we expect foundations to play a more prominent and proactive role where foundations take more responsibility for social services and plays a role as policy maker. The Austrian nonprofit sector is somewhere between the Swedish and the US nonprofit sectors and we expect that foundation strategies will have characteristics of both reacting to the actions of the state and also to act proactively and try to function as a policy maker.

3. Data

3.1. Sample

Our research consists of a combination of document analysis and qualitative interviews with staff members and/or board members of

three large foundations per country (Austria, the US and Sweden), which are active in the social service field. We have furthermore due to practical reasons focused on foundations in the cities of Atlanta, Stockholm and Vienna. We used criterion sampling for this study and matched the foundations across country based on their total giving, funder type, and field of activity (Patton, 1990). We hypothesized that larger foundations would be able to speak more to our papers focus, as they encourage more explicit attention to strategies and goals. Across countries we aimed to control variations by analyzing foundations that are primarily active in the field of social services since foundations with different focus areas may function differently. Constraining our sample selection to foundations in the social service area is relevant as the interplay between the state and the nonprofit sector is especially prevalent in this sector, and thus helps us to draw conclusions about the impact of different welfare regimes on the strategy formation process. We also matched our samples across country by focusing on including the same type of foundations. In each country we interviewed two independent foundations and one corporate foundation. A list of foundations included in this sample and their characteristics is found in Appendix 1. ⁱ

3.2. Method

Before we conducted interviews with each foundation a document analysis was conducted. Document analysis included reviewing web-

sites, grantmaking portfolios, and annual reports. Through this document review we determined the following: (1) which nonprofits received the largest grant amounts, (2) what the articulated mission and goals of the foundation are and (3) what the foundation funds. Each member of the research team then conducted semistructured interviews within their respective countries (a list of questions is attached in Appendix 2). The interview data was transcribed and translated to compare the cases across the countries.

We used qualitative content analysis (and NVivo software) to analyze the interview data. Qualitative content analysis is defined as an approach of empirical, methodological controlled analysis of texts within their context of communication, following content analytical rules and step by step models, without rash quantification (Mayring, 2000). Content analysis focuses on the meanings, topics and patterns that are manifest or latent in certain texts. While different approaches of qualitative content analysis can be distinguished, which differ with regard to their focus on induction or deduction, we focus on the conventional form of content analysis in which codes are derived inductively. To permit valid and reliable inferences, qualitative content analysis, as described by Mayring (2000) consists of a systematic process for data analysis and reduction. After a first round of open coding by each researcher for all interviews, our research team came up with a more refined and reduced coding scheme. We then decided on a final coding scheme, which we used for the remaining analysis.

4. Findings

Findings from document analysis and qualitative interviews inform the framework described below. We first describe how the foundation mission is influencing the strategy formation process. The reason for placing foundation mission before our model is that our interviews clearly posit that it is the foundation mission and circumstances at founding which creates the borders within which later strategy formation must navigate. We then identify a set of environmental, operational and leadership factors that impact the strategy formation process, and describe how these factors create particular foundation responses.

4.1. Foundation Mission and pre-establishment

Our model (in Figure 2) has a set of factors affecting the strategy formation process as its starting point. However, similar to other research (Stinchcombe, 1965; Boeker, 1989), we find that factors at an organizations founding impact the initial mission and consequently either allow or limit future adjustments in grantmaking strategy. The overarching factor is the initial mission and deed of a foundation, as influencing most other decisions of the foundations in our sample.

Some foundations in our sample describes themselves as having an established and coherent mission from the beginning with specific avenues of involvement and grantmaking, and this initial mission is often described as the result of a prior thought process.

“And in 2006 he took part in the Walldorf Meeting, and this was a really formative experience for him. ... And this was kind of the priming; he then decided that he wants to develop the Essl social prize. And the Essl social prize was kind of connected with Muhammed Junus who won the peace noble price at this time, and not a social Nobel Prize, because such a prize simply didn’t exist.” (Austrian foundation)

Using Mintzbergs gestalt strategy as a construct, which he defines as a unique and tightly integrated strategy creating a protected environmental niche for the organization we find that some foundations in our sample are created with what he would call a gestalt strategy. This is in accordance with Mintzbergs observation that such strategies develop most frequently when the organization is founded, that is when the operating system is weakest, leadership typically strong and the environment tolerant.

At the same time, our interviews also provide examples of foundations created with very broad and flexible missions. About half of the interviewed foundations have what we would characterize as very broad missions. This also seems to vary across countries depending on the legal system (more on this below under environmental factors).

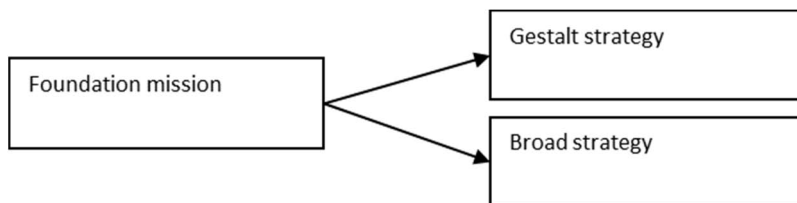
“You know I don’t know ... I would imagine that somewhere we do have guidelines that determine or at least provide a foundation for how grant dollars are allocated.” (US foundation)

“Indeed but different boards have given themselves different amounts of freedom of interpretation. In the deed it say no church, military or scouts but if we look at the different chairs over time we see a lot of priests and I guess they may have supported the church.” (Swedish foundation)

It seems that in addition to personal preferences and/or assessment of needs, the legal system, with varying degrees in the three countries, impacts the creation of the mission.

“In the humanitarian activities there are defined areas that we are supposed to act within and support, and that’s children- and youth care and upbringing or education and to the “needing elderly handicapped”, I even think it says in the bylaws. It’s those two areas and then there’s a lot of rules and restrictions that actually are the tax authority’s limitations. And that you’re not supposed to give contributions to sport activities or religious activities.” (Swedish foundation)

Figure 1. Foundation Mission and the Initial Strategy Formation Process



Given the organizational characteristics of foundations, such as no members and few feedback loops, we see that the initial foundation mission is of high relevance for foundations and has a large impact on strategy formation. While in other types of organizations mission related activities can be changed more easily, in foundations the initial deed, which informs the mission, is harder or not at all changeable, depending on the country in which the foundation has been set up. The strength of the imprinting force of the foundation mission is dependent upon the welfare regime type in which the foundation is set up.

The rigidity of the deed and the mission varies from almost impossible to change in Sweden to more of a guideline in the United States. How rigid the deed and mission is will have a profound effect on the magnitude of influence the environment, operating systems and leadership may have on strategy formation. However, we also find and will further comment on this below, that even in more rigid legal sys-

tems there are opportunities for a more flexible strategy formation process.

Our interviews also reveal that in those countries where an advanced welfare state exists, (Austria and Sweden) foundations position themselves as complementary to the welfare state, which often results in more specificity in the foundations mission. Alternatively, the US foundations in our sample do not mention the state and their role vis-à-vis the state. Thus there seems to be a relationship between the level of welfare services offered by the state and the specificity of the mission. The more advanced the existing welfare state is, the more this serves as an imprinting force on the foundation's initial mission.

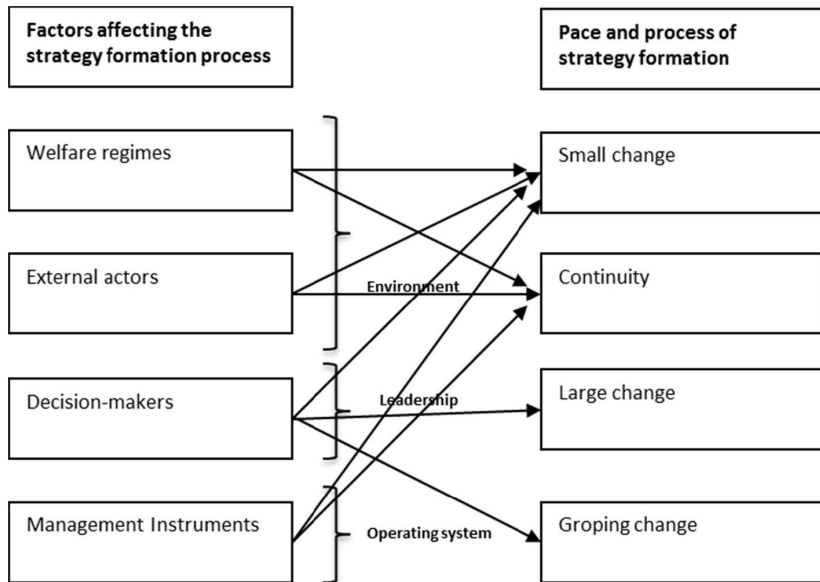
4.2. Model development

In Figure 2, we create a framework of the four factors we found to impact strategy formation in our qualitative interviews and their impact on foundation strategy formation². A framework is defined by Sabatier (2007) as identifying “a set of variables and the relationships among them that presumably account for a set of phenomena” (p. 6). Developing a framework of the variables and potential relationships that impact foundation strategy formation is particularly important since our findings indicate that foundations are not following explicit strategies. Instead, our findings reveal that across coun-

² We have chosen not to include the original deed and mission in the framework since we believe that the original deed and mission both is a prerequisite for the framework and that it also constantly affects and is affected by the other factors in the framework.

tries strategy formation can be described as an emergent process. Therefore, it is necessary to begin developing an understanding of how foundation strategies emerge in practice and which factors might affect this process, in order to enhance foundation strategy formation, based in contextual reality. In our framework the first set of boxes identifies factors that have an impact on strategy formation across countries. The second set of boxes describes how those factors may impact the types of strategy formation processes that do occur within foundations.

Figure 2. Factors Impacting the Strategy Formation Process



Through our interviews we identified four factors, which influence strategy formation in foundations: the role of the state, external ac-

tors (grantees and peer networks), decisionmakers and management instruments used by foundations. In Mintzbergs (1978) terms these factors comprise environmental factors, the operational system and leadership factors. While the role of the state and external actors (grantees and peer networks), can be classified as environmental factors, management instruments, such as grant-making criteria and evaluation tools can be classified as part of the operational system and the role of decision makers is related to leadership.

As the figure shows our interviews reveal that all four factors can lead to small changes in strategy formation and that is only decision maker that (according to our interviews) do not lead to continuity. We would although presume that this is more due to respondent bias – it is probable that the interviewed foundation leaders where more prone to discuss their decisions which had led to change rather than continuity. It is also decision makers who are the only factor that leads to groping change. Below we describe each factor and how they influence strategy formation in more detail.

4.3. Environmental factors

In our interviews we find that for many foundations strategy formation is based on their reactions to what happens in the environment. We define environmental factors as the role of the state and external actors (grantees and peer networks).

4.3.1 Role of the state

The legal regulations (civil law, associational law and tax law regulations) have an impact on foundation strategy formation. Associational law will for instance sets the initial boundaries for what a foundation is and we can see that different countries give foundations different amount of flexibility with regard to changing the original deed. We can also see that different constructions of tax systems encourage foundations to support different areas. This is further complicated by the fact that the legal systems are in constant flux whereas foundation deeds typically are hard to change.

Here we see strong country specific differences in our interviews. US foundations do not mention the role of the state and our interpretation is that this is due to a more flexible foundation law. However, both Swedish and Austrian foundations seem to be more affected and constrained by the legal environment. Rather strict tax laws in Sweden and Austria, which only allow foundations a privileged status if they fund specific areas of activities and purposes, lead foundations to either not depart from their initial mission or force them to change when the existing strategy is not in accordance with new regulations. An example is found in one of our Swedish interviews as current Swedish tax law gives a more privileged tax status to social work which targets children and youth. This led some foundations in the sample, as shown by the quote below, to partly change focus by removing part of their mission, which was established when a more

general tax law regarding social work was in place, in a piecemeal way:

“[...]we changed focus due to a new auditor that said that due to tax law we shouldn't give to adults anymore.” (Swedish foundation)

Welfare regimes, while closely related to legal regulations, are identified here as a separate factor, focusing on the role the government plays in delivering social services³. Again, we see differences across countries as Austrian and Swedish foundations discuss their role vis-à-vis the welfare state, while US foundations in our sample do not mention the state at all. This is particularly interesting since both Austria and Sweden have very different histories pertaining to the welfare state and the nonprofit sector. Both Austrian and Swedish foundations in our interviews want to function as a complement to the welfare state and they raise concerns about signs that they are, in certain areas at least, gradually taking over the responsibility of the state.

“Children are basically the responsibility of the municipality, children that have social problems that is. At the same time we know that society is a collected effort by the state and civil society and some-

³ Given our choice of empirical sample we focus on the relation between the foundation and the welfare state in the area of social services. Given a different empirical sample, for instance research foundations, this relationship may be used differently.

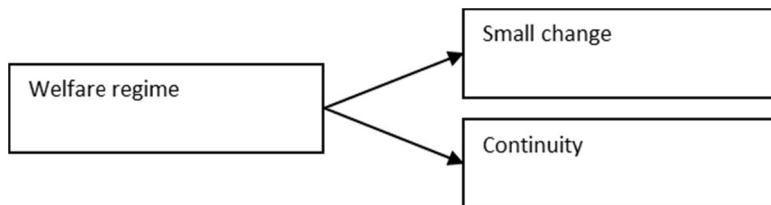
times it might be the responsibility of the municipality but not all municipalities live up to their responsibility” (Swedish foundation)

We also see signs that not only a retreating welfare state can be construed as a problem, but also an advancing welfare state can cause problems for foundations given a time-bound mission and inflexible statutes.

“We also have in our regulations that we shouldn’t support things that should be done by state and municipality, something which has become harder and harder for us to do since they have taken over more and more social tasks.” (Swedish foundation)

Welfare regimes seem to both influence the mission of the foundation (as foundations often are positioned in a specific niche in relation to the welfare state when they are founded) and the strategy formation process, as changing roles of the welfare state or changing legal regulations lead foundations to either change or narrow their focus. One paramount challenge for foundation management as they form their strategies is to interpret the mission in accordance of the changing times and find relevance for their particular foundation and its mission in new or changing environments.

Figure 3. The Role of The State’s Impact on the Strategy Formation Process



The role of the state is most likely to lead foundations adding or removing pieces of their strategy in order to fit with regulations (small changes in their strategy formation process) or leads to continuity, and thus foundations continuing doing what they have been doing before. In our interviews the role of the state often leads foundations to change small components of their strategy, but we also see some evidence that the role of the welfare state might lead foundations towards larger changes in the future. This may be due to the fact that the role of the welfare state is changing more rapidly and affecting the strategy of the foundation, especially if the mission is defined as complementary to the state.

4.3.2 Grantee demands

Another environmental factor that seems to be influencing foundations across countries is grantee demands. We find that foundations often mention their role as a responsible citizen or member of the community. Foundations that take this approach learn about the

communities' needs from their applicants and form their strategies around this:

“I have been on the board for 8 years and I find it very rewarding to read all those applications. You really get a good view on what is happening in the field, what they do and what troubles they face.”
(Swedish foundation)

“We really feel our job is to provide the money to people who are doing the work. And we feel that they know better than we do what their needs are and what the needs of the community are.” (US foundation)

We especially observed in our interviews that changing applicant demands and new groups of applicants have a strong impact on how foundation strategies form in practice. Foundations mention that this may alert them to new social issues, leading to them reevaluating their priorities:

“We don't say our priority is ... we are focusing on adult literacy. We wait for literacy action to come to us and say there is a huge problem with adult literacy. We really sort of wait ... but we have been funding for so long that we are pretty aware – and people seek our counsel and advice, even beyond seeking grants. So I think we feel like we're pretty in tune to what are the big community needs.”
(US Foundation)

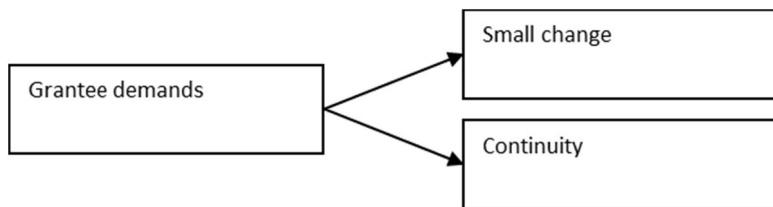
Foundations may also try to use new communication channels and deliberately influence who will apply for their grants.

“We had a different ad this year than we have had previous years which I think might have had an impact. We had an ad in Metro (free newspaper) instead of the national daily newspapers and I think we might have reached a different group of people.” (Swedish foundation)

There are also instances when there is a surge in applications, which often is interpreted as getting more known and appreciated in the local community. This also serves as a stamp of approval that the strategy is going in the right direction:

“I think this is due to us becoming more known and that people talk about us more. It is very positive I think even if it means more work for us and that we distribute more money.” (Swedish foundation)

Figure 4. Grantee Demands Impact on the Strategy Formation Process



Our findings indicate that a change in grantee demands often leads to small changes in a foundations strategy formation process, where new issues and methods are added to existing strategies in response to new demands from the environment. On the other hand when foundations perceive that their mission already and increasingly appeals to grantees (often reflected through a surge in applications) they often continue to engage in their existing strategy formation process.

4.3.3 Peer network

Relationships with other foundations also seem to influence the strategy formation process. We find that foundations, especially young foundations, show a tendency to cooperate with other foundations, use them as role models or seek advice from them in order to develop or refine their own strategies.

“We went on a couple of conferences together and looked at what other foundations do and he realized what functions foundation can play in the society and Martin Essl as a visionary and creative head saw that there are other interesting fields of activities. And based on this we tried to develop new ideas for the foundation.” (Austrian foundation)

“They analyzed what other foundations did, what other similar institutions do, and then it very soon was clear that culture, social activi-

ties, and Europe should be the cornerstones of the foundation. There have not been a lot of foundations that had this as a combination, and this should be developed as a unique selling proposition.” (Austrian foundation)

Figure 5. Peer Networks Impact on the Strategy Formation Process

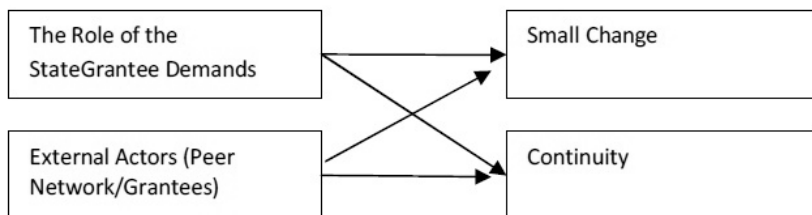


It seems that input from peer networks early in a foundation's life cycle has a tendency to lead to small changes in strategy formation, where certain components of strategy are added or removed, due to the direct input of other foundations or simply by observing what other foundations do. There are also instances where peer learning may happen later in a foundation's life cycle, yet this still does not lead to large changes in the strategy formation process, and instead often leads to small additions to a foundation's existing strategy formation process.

4.3.4 Connection between environmental factors and strategy formation process

Most of the environmental factors affect small changes to a foundation's strategy formation process. These environmental factors also seem to largely have a constraining impact on the foundations strategy formation process. The state seems to impact strategy formation through laws and regulations that steer foundations toward tax exempt areas. Since foundations often are bound to their mission for the length of their existence they carry with them their time-bound missions despite new or different situations and environments that may emerge. Another observation is that applicants also have an impact on foundation strategy formation by informing foundations about new or changing needs in the community, which may lead to small changes in the organizations strategy formation process. Yet, there are also indications that an increasing number of applicants can strengthen foundations in their resolve that they are needed and appreciated by the local community, and thus lead to continuity. If foundations are involved in peer networks, these relationships also lead to small changes in the strategy formation process.

Figure 6. Environmental Factors Impact on the Strategy Formation Process



4.4. Leadership

We found across countries that the role of decisions makers (comprising board members and/or executive staff), is a highly influencing factor on foundation strategy formation. In all the interviews foundations either designate board members or employees (of the foundation itself or of the founding company) as decision makers in the grantmaking process. By decision-making we refer to the process of deciding who should get funded by the foundation.

Many foundations indicate that board members have freedom in interpreting the foundations mission and that this is especially common when they first enter the board or when the foundation goes through a time of introspection, most often due to a crisis of some sort.

“People come and go on the board and it depends on how daring the members of the board are and want to be. Particularly in the 80’s there was a member of the board that had somewhat new ideas and an entrepreneurial spirit that wanted to concentrate the contributions

and contribute to larger projects which could make an impact and make the foundation more well-known.” (Swedish foundation)

It is common that board members are selected because they are a representative of a particular constituency. Sometimes the argument is that this enables the foundation to be anchored in the surrounding community as these board members bring with them knowledge and expertise. But this connection to other organizations may also affect the grantmaking of the foundation:

“We have also given money to Fryshuset for several years, an activity which I think both the former and the current bishop like and it is a part of the YMCA. The city mission has received grant for a lot of years. So there are these activities that the church and the bishop’s support and which are not touched by the five year rule.” (Swedish foundation)

Thus at various times in the strategy formation process the power of specific agents was reflected in foundations strategic decisions. Often these decision makers’ choices were not consensual but rather idiosyncratic and reflecting their own interests, leading to small, large or even groping changes in the strategy formation process.

“I would say the musical school was one but which we now have stopped funding since they can take care of themselves. It was good since it was part of the more focused drive that one of the board

members started, he isn't on the board now and no one has taken up that kind of thinking again. So we are now back to more dispersed grant making.” (Swedish foundation)

Additionally, in corporate foundations the employees of the corporation are often integrated in the decision making process, often by recommending what the foundation should fund:

“So those employees actually will make recommendations as to what they would like to fund. Their allocated a budget by the foundation and then they invest that budget within their local communities, and it comes back up here for approval.” (US foundation)

I also think one important relationship is with the employees of the bank I really think that they feel proud over what the foundations are doing for the local community. (Swedish foundation)

In those foundations in our sample that have employed staff, projects and ideas often come from staff. There seems to be a relationship between the number of staff members and the proactive nature of a foundation in finding projects. The more staff members a foundation has, the more these staff members are involved in the decision-making process.

Talking about the program areas, we have an advisory board, with a lot of experts which contribute their knowledge. They are our spar-

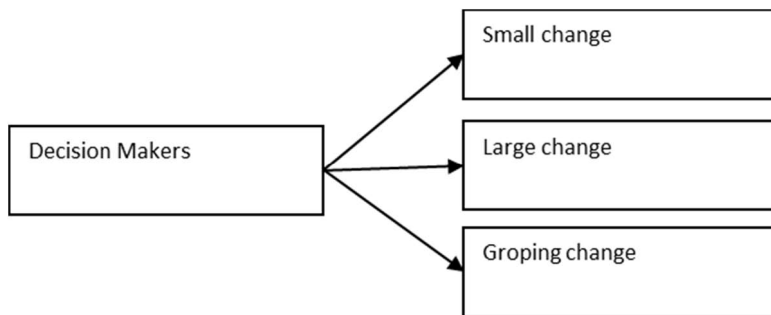
ing partners when we come up with ideas. The initial ideas are developed in the respective program areas from the program director in each area, and their ideas will be presented to the advisory board and they will discuss it together. (Austrian foundation)

4.4.1 Connection between leadership and strategy formation process

The abilities of decision makers to influence a foundations strategy formation process can lead to small, large or groping changes in the strategy formation process, as foundations may unsystematically add or remove pieces of their strategy. Larger changes in strategy formation resulting from leadership decisions were more prevalent when new board members were initially appointed, who brought into the foundation their own ideas. These large changes in strategy formation were also seen when board members had a lot of power or when the foundation was in the midst of a crisis of some sort.

The involvement of external people or employees in the decision making process is likely to either lead to large or groping changes within the organizations strategy formation process. Decision makers with a lot of power or status can make large changes to a foundations strategy about whom to fund. These same individuals influence can lead to groping change where decision makers personal interest are guiding decisions which do not fit with prior grant-making decisions. On the other hand, when the foundation has a large number of employees strategy formation may be more aligned with the foundations overall original strategy.

Figure 7. Leadership Factors and the Strategy Formation Process



4.5. Operating system

Additionally, we found that strategy formation is also influenced by two specific management instruments, namely the selection process and the evaluation process that the foundation uses. Foundations have to make decisions about which organizations are eligible to apply for grants. Thus most foundations decide on explicit or implicit selection criteria. All foundations in our interviews exclude grantees which seek funding for operating costs. Foundations seem concerned with funding operating costs and the dependence this may create with their grantees.

“We have a discussion with a 4H farm in the north of the region. It is partially funded by the municipality but they of course want to de-

velop their operations in nature, environment and animals and these are all important issues especially since they are about letting children from the cities come there and experience farm life. But if we go in and fund operational costs and them expanding their operations it will tie us down.” (Swedish foundation)

“Well this is a central topic for many foundations. So far we only fund specific projects, because you need a critical amount of money to do capacity building and in a lot of cases it also means long term commitment and this means that more and more money would go there, and we wouldn’t have resources left to experiment and where we can do innovative things. Considering the given budget, it is the right decision to only fund projects.” (Austrian foundation)

Another example of eligibility criteria is that most foundations in our sample do not fund individuals, but instead prefer to fund well-established organizations.

"We are also very careful not to fund individuals, for example for education or such things. And we are also very careful not to do things that skew competition like funding individual companies. Lastly we are also careful not to fund general operational costs since we then need to fund them each year.” (Swedish foundation)

While the above examples show specific eligibility criteria, some foundations also clearly stipulate some very specific selection criteria which grantees need to fulfill in order to get grants.

“We have a list with criteria. That’s the basis for the decisions the jury takes. Well the projects need to involve some element of innovation. Could be a new target group, a new idea, a new method how to reach your target group, innovation concerning the reach or the impact of the projects, something needs to be new, otherwise it wouldn’t be innovative. Or a combination of all these things or special PR activities, something which has not been there before.” (Austrian foundation)

We argue that eligibility and selection criteria impact the strategy formation process, as they influence which organizations and causes will appear on the radar of the foundations and which organizations and causes will not. In our interviews selection criteria often represent an orientation point and at the same time limiting factor for decision makers in foundation. The more rigid these criteria are the more these factors limit the freedom of decision makers.

Secondly, evaluation in foundations also impacts the strategy formation process. Evaluation seems to influence the strategy formation process of foundation in two different ways. On one hand evaluation is used in foundations to learn more about past projects, which could inform future decisions. Thus evaluation is used as a tool in order to

determine whether grants have been invested efficiently and to make inferences from this.

“Well of course this is important for us, because we want to know how our ideas work out. And well an evaluation from a neutral person is important to us, and we want to learn out of this. Because of course we as a foundation and the prize laureates have a tendency to see projects too positively, because of course we don’t want to confess that we took a wrong decision. We want to evaluate all our projects.” (Austrian foundation)

“So we’ll look at whatever measures are appropriate for that grant. So typically that is part of the request – what they expect the outcomes to be. We ask for all of our grantees, we put it in their grant letter that we expect a report from them on the impact of the grant. Then they will report back to us. And we compile all of those reports and we summarize them and we share those with our grantees. We have two report deadlines a year.” (Swedish foundation)

On the other hand we see even stronger evidence for evaluation as a symbolic instrument. For many foundations we interviewed evaluation is used to serve as a signal of professionalism, with foundations publicly claiming that it is important to understand what grantees did with the grants. Yet, for most foundations in our sample, we found that they asked grantees to report back or to come up with a list of

expected results but they do not apply this information in order to compare projects or use this information for future grant making.

“We do not use them to develop our operations but we use them as a quality check, if you do not report back you will not get any more grants. When the board gets the applications the administration has noted if they have gotten grants before and if they have reported back or not.” (Swedish foundation)

One reason why foundations may not use evaluation more systematically is the fact that an evaluation of grantees might result in foundations having to drastically change their focus area or strategy, should they determine that their projects are not reaching the stipulated goals. This is a fact foundations do not necessarily want to confront themselves with.

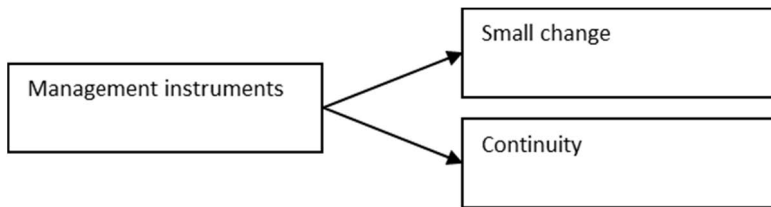
“Not more than we have discussed the possibility to document and follow up such projects but we haven’t come further than that. This would also mean that we change the way we work from being a grant maker into something else.” (Swedish foundation)

Our interviews reveal that no foundation has fundamentally changed, because of what they discovered through an evaluation, but that evaluation rather functions as a set of criteria for being eligible for grants.

4.5.1 Connection between management instruments and strategy formation process

While eligibility and selection criteria give orientation and limit the freedom of leadership, and thus make large changes unlikely, learning in practice either leads foundations to add or remove small pieces of their strategy, thus small change, or if mostly used for symbolic reasons learning does not lead to change at all, but more points towards continuity. Thus both the selection process and the evaluation process of foundations seem to mainly have a constraining and preserving role in the strategy formation process.

Figure 8. Management Instruments and the Impact on the Strategy Formation Process



5. Limitations and Future Research

The ability to draw specific nuances and learn in depth about the strategy formation process across three countries embedded in three different regimes is limited by our small sample size. Although the cross-national sample provided a benefit and the opportunity to draw

conclusions beyond a single country we recognize that a larger sample size would provide the opportunity to learn both about the magnitude and prevalence of other factors impacting the strategy formation process. A larger sample size may also inform how these factors may influence or constrain various strategy formation processes. Additionally, our interviews indicated that these factors are often simultaneously influencing the strategy formation process. Understanding which factors serve as antecedent and intervening variables would prove useful in future research.

Another limitation of this study was that each researcher interviewed different actors' that hold different positions in foundations, which likely led to particular perspectives about the strategy formation process. While we tried to control for this factor it proved difficult in reality as it was hard to influence whom the foundation selected as our respondent. This likely influences the delineation between factors we identified as the operating system and those we identified as leadership.

In addition we also acknowledged that our individual research foci and interests also led the interviews in different directions. As we used a semi-structured interview guideline, each interviewer had some room to lead the interviews in several different directions. We agreed on central topics in the beginning, to control for this, but certainly acknowledge that various topics raised in interviews may ap-

pear more or less frequently depending on each researcher's individual interests.

Our hope is to be able to use the existing framework we've developed to create either a more rigid interview guide or collect survey data in future research. In this way we can test some of the hypotheses we have developed during this initial round of interviews. Finally, by increasing our sample size we would be able to hold other factors constant that also emerged in our interviews as potentially influencing the strategy formation process, such as age, size, and type of foundation.

6. Discussion and Conclusion

By establishing that foundations strategy formation processes are emergent, rather than planned we offer a new perspective on how to examine foundation strategy. In our research we question the prevalent paradigm in strategy research concerning planned strategy. However, we do not question that it is important for foundations to have a consistent set of ideas about how the foundation should work to achieve its goals. But by conceptualizing strategy as an emergent process, we claim that it is often infeasible and impractical for foundations to come up with a very coherent and detailed strategy or in Mintzberg's terms a gestalt theory in the beginning, but rather that in the course of decisions a pattern will gradually emerge, changing

based on the influence and interaction of different factors. Our paper provides an initial step in this research by examining foundation strategy formation across three countries guided by the work of Mintzberg (1978) an advocate for understanding the realities of strategy formation. While we do not come up with totally new research results across organizations studies we are contributing to a better understanding of foundation grantmaking by applying this framework to foundations. We also believe that we make an important contribution to current research, by not just focusing on philanthropic strategy as an emerging process but by understanding strategy formations influencing factors and describing how they influence strategy formation. Our framework describes four factors (welfare regimes, external actors, decision makers and management instruments) which could potentially influence strategy formation (small or large changes, groping changes and continuity) in foundations.

To summarize the effect of these factors on strategy formation, we conclude that both environmental factors and management instruments lead to small changes in the strategy formation process or even continuity, while leadership factors can lead to larger change or groping. We hypothesize that different factors and combinations of factors are more prevalent at different stages of a foundations life cycle, yet future research may inform this hypothesis more explicitly. For the purposes of presenting this initial model, we describe these factors influence on the strategy formation process separately but

certainly acknowledge that in practice these factors interact and influence each other. We also find that the initial foundation mission has a large impact on strategy formation. Primarily, how rigid the deed and/or mission is has a profound effect on the magnitude of influence the environment, operating systems and leadership may have on strategy formation. However, we also find that even in more rigid legal systems there are opportunities for a more flexible strategy formation process. Our hope is that this research can provide useful information on the realities of the foundation strategy formation process. Our findings indicate that foundation strategy formation is an emergent and ever changing process, complicated by a myriad of factors and actors. Understanding exactly how all of these factors work together to influence foundation strategy or lack thereof is of utmost importance as philanthropy continues to play a larger role in the provision of services and implementation of public policy, across the world.

7. Appendix 1 – Foundation sample

	Country	Type	Yearly spending	Staff
Austria Fdn A	Austria	Independent	1,5 million euro	2
Austria Fdn B	Austria	Independent	300,000 euro	1 (and several part time)
Austria Fdn C	Austria	Corporate	6 million euro	40
Sweden Fdn A	Sweden	Independent	1 million euro	1
Sweden Fdn B	Sweden	Independent	500,000 euro	1
Sweden Fdn C	Sweden	Corporate	1 million euro	1
US Fdn A	US	Independent	\$116 867 936	4
US Fdn B	US	Independent	\$39 800 225	5+
US Fdn C	US	Corporate	\$41 826 486	4+

8. Appendix 2 – Interview guide

Topic	Main question	Probing questions/remarks
Strategic focus	<i>Can you tell us what are the foundation's main activities?</i>	ask them about mission; ask for a copy of mission statement; Do you have the goals of your organization written down somewhere?
	<i>What would you say is the foundation's main strategic focus at the time?</i>	<p>Could explain why they chose this strategic focus?</p> <p>What were the particular events that caused this shift in strategy?</p> <p>Which stakeholders primarily impact the strategy of the foundation?</p>
	<i>Would you characterize the foundation as mostly proactive when it comes to strategy? Please elaborate.</i>	
	<i>Has the foundation's strategy changed over the last few years and why?</i>	<p>What were the particular events that caused this shift in strategy?</p> <p>Who was responsible for this decision? Which stakeholders are involved in this decision (taken into account)?</p>
	<i>Who are the major stakeholders of the foundations?</i>	What percentage of the foundations time is spent working with the stakeholders you just mentioned?
	<i>Do you somehow check whether the organization is successful? If yes, how? (Do you use any particular techniques?) How often do you check?</i>	
	<i>Do you know any organizations or foundations which are very similar to you? Can you name them?</i>	

Organizational Characteristics

<p><i>What year was the organization founded?</i></p>	
<p><i>How many paid staff and volunteers does the organization have?</i></p>	
<p><i>How does the organizational structure of the organization look like?</i></p>	<p>If they have an organization chart, ask the for it.</p> <p>What are the specific task7functions of each positions?</p> <p>How are they different units related to each other? (Who decides what? Who reports to whom? Who works with whom on what kind of tasks?)</p> <p>Ask more specific question about the board: Who is serving on the board? In terms of demographics (sex, age, professional background, geographical)?</p>
<p><i>What was the organization's total revenue in 2010?</i></p>	<p>What sources did these revenues come from?</p> <p>a. If endowed: Where do the funds come from? How is the donor involved in the foundation? (strategy process, board etc ...)</p> <p>b. If fundraising (including savings bank foundations): Where do the funds come from? Does the amount of donations fluctuate over time? How many of your board members are considered majors donors?</p>

Grantmaking decisions

*Decision process: We would like to know more about how grantmaking decisions are made in your organization. If you think of the most important grant making decision – from your point of view – that the organization has made recently: how did this decision-making process take place?
(how much money, who is responsible, etc ...)*

How has the decision making process been 10 years ago and what has changed?

Do you have any written statutes or other written regulations or formal catalogue of criteria for grant making? If yes, what are they about
(Ask for copy, if possible)

Who was involved in the decision making process?

Foundation-grantee relationship

How would you describe the relationship with grantees?

Do you prefer to work closely with grantees or at arm's length distance? Why? (Example)

Does the foundation work with short term or long term projects? Please elaborate.

What was one of the most important grants recently?

What was your rationale for choosing this specific grantee?

Who were the other organization that applied for the grant?

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