

# research

## Governance systems of grant-making foundations

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This article aims at filling an important gap in governance literature. Most governance studies are board-focused and hardly differentiate between different types of non-profit organisations. Surveys on governance structures of independent grant-making foundations are almost non-existent in the current literature. Due to the heavy focus on boards, the roles of executive directors in governance are somewhat neglected. This article presents the results of a multiple case study research project with 12 grant-making foundations in Germany and Switzerland with chief executives as interview partners. Findings show that the roles of the board and the executive director in governance functions vary. Different patterns of foundation governance are evident. Based on a model developed by Saidel and Harlan (1998), we showcase four governance structures in grant-making foundations and use ideal-typical organisational charts for illustration. The results of this study shed light on the black boxes of foundations and inform practice and research alike.

**key words** governance • grant-making foundation • executive leadership

### Introduction

Governance research continues to focus on boards. This is somewhat understandable considering that the board is the only governing body that most non-profit organisations are legally required to have. Boards are charged with fiduciary oversight, guaranteeing compliance with legal regulations and ensuring that their organisation effectively fulfils its mission statement. Board members are supposed to determine the strategic direction of an organisation, hire and oversee executive staff, develop policies, engage in advocacy and mobilise resources (Miller-Millesen, 2003; Brown and Guo, 2010; Renz, 2010). Common topics in governance literature relate to:

- the composition of boards (Iecovich, 2005; Garrett, 2007; Callen et al, 2010);
- board roles and responsibilities (Brown and Guo, 2010);
- board effectiveness and its link to organisational effectiveness (Brown, 2005, 2007; Herman and Renz, 2008);
- board–staff relationships (Kramer, 1985; Herman and Heimovics, 1990; Murray et al, 1992; von Schnurbein, 2009).

Along with empirical studies, a range of theoretical approaches to boards and the board–staff relationship can be found in the literature non-profit organisations. These include:

- agency theory (Fama and Jensen, 1983; Miller, 2002);
- resource dependency theory (Pfeffer and Salancik, 1978);
- institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983);
- a combination of these three theories (Miller-Millensen, 2003);
- stewardship theory (Donaldson and Davis, 1991).

Lately, it has also been argued that governance research could benefit from a contingency-based framework (Bradshaw, 2009; Ostrower and Stone, 2009).

Although this rich body of literature has extended our knowledge about the governance of non-profit organisations, some important gaps still exist. First of all, we have seen that there is no ‘one size fits all’ model of boards (Ostrower and Stone, 2006: 623). Theoretical approaches have shown limited explanatory power, and empirical studies mostly concentrate on organisations in the social and health sector that depend on external funds (Cornforth, 2012). However, we believe that the type of organisation and its programme of activities have a strong influence on the governance practices that an organisation adopts. Even though similar responsibilities exist in all non-profit organisations, there are also important differences that should be taken into account. A national non-profit with high revenues differs from a community art organisation – a soup kitchen is different from an international health organisation. In this article, we look at a type of organisation that has somehow been neglected in governance research: grant-making foundations (for an exception, see de Andrés-Alonso et al, 2009). Apart from the paucity of academic research on the role of governance in grant-making foundations in general, particularly little is known about foundations in Germany and Switzerland. Even though the last 20 years have shown an unprecedented growth in foundations in both countries (von Schnurbein and Bethmann, 2010), almost no knowledge about their internal organisation and governance systems exists. One explanation for this is the limited availability of public information in both countries. Foundations are not obliged to publish any information other than the names of board members, the foundation’s purpose and a postal address. Tax reports and annual reports do not have to be made available to the public. One aim of the present article is to reveal the content of the foundation ‘black box’ (Diaz, 1999).

We also focus on the views of executive directors. The concentration on boards in governance research has been repeatedly criticised (eg Fletcher, 1992; Ostrower and Stone, 2006; Cornforth, 2012). Renz (2010: 126) argues that ‘governance is an organisational function whereas a board is a structure of the organisation that exists (at least theoretically) to govern’. The actual activity of governing an organisation is often executed by more people than just the members of the board. The executive director, in particular, can play an important role in ensuring that the non-profit complies with formal regulations and works effectively to fulfil its mission. Studies that look at board–staff relationships have repeatedly emphasised the role of the executive director in governance. Heimovics et al (1995: 236) speak of ‘board-centered leadership’ and show how effective executives guide boards in fulfilling their governance role. Drucker (1990) emphasises the non-profit organisation’s need for a

clear and functioning governance structure and postulates that the responsibility for effective governance should be assigned to the executive director. Cornforth (2012) criticises the focus on boards in governance research and argues that the roles of managers and other actors should receive more attention. Fletcher (1992) sees the executive as having a key role in determining whether the board of directors works well and makes the criticism that much of the board development literature virtually ignores the role of the executive. As a result, she demands that more studies should investigate the executive director's role.

Following Fletcher's demand, this article presents the findings of a multiple case study with 12 medium and large grant-making foundations in Germany and Switzerland, where the interview partners are executive directors of the foundations. The data are further enriched by adding the authors' experiences with small foundations, gained in consultancies and advanced training courses for foundation board members and staff. The main research questions are: Do different governance patterns exist in grant-making foundations? and What roles do the board and the executive director play in governing this special type of non-profit organisation?

The article is structured as follows. In the first part, we outline the German and Swiss environment for foundations and take a look at governance functions in grant-making foundations. In the second part, we review the literature on board-staff relations with a special emphasis on a model developed by Sidel and Harlan (1998). After the methods section, we explain and discuss the findings of our study. We show that similar governance patterns to those developed by Sidel and Harlan exist in grant-making foundations. These are further refined by explaining some of the variations within the different patterns. We also discuss the advantages and challenges of each governance pattern and provide tentative explanations on how they evolve. Additionally, we present organisational charts that illustrate typical ways in which the governance systems can be structured. Finally, the study's implications for further research are presented and its relevance and contribution to research and practice are discussed.

## Governance in grant-making foundations

Toepler (1999) points out the difficulty in defining foundations from a comparative perspective. In Germany and Switzerland, foundations are defined by civil law. In the United States, foundations are a creation of tax law and can be regarded as a subcategory of 501(c)(3) organisations.<sup>1</sup> Distinctions are made between public charities that receive their income from multiple sources and private foundations that are supported by a single donor. In this study, we specifically look at foundations with ample assets and sufficient income to support and further third-party projects. The Council of Foundations describes these as 'private foundations that are focused primarily on grant-making and generally do not raise funds or seek public financial support the way public charities (as community foundations) must' ([www.cof.org](http://www.cof.org)).

Today approximately 12,800 foundations are domiciled in Switzerland (Eckhardt et al, 2013) and approximately 19,500 are domiciled in Germany (Bundesverband Deutscher Stiftungen, 2013). Half of these foundations have been established in the last 20 years (von Schnurbein and Bethmann, 2010). There are no reliable figures on how many can be categorised as primarily grant making or primarily operative. Legal aspects regarding foundations are laid down in articles 80–88 of the German civil

code and articles 80–89 of the Swiss civil code. Both are rather liberal and therefore do not impose strong regulations (Sprecher, 2010; von Hippel, 2010). The essential act in establishing a foundation is the dedication of assets to a defined purpose. The foundation receives its legal personality once it is recorded in the commercial register. No formal rules about the organisation of the grant-making programmes need to be made. The tax authorities may grant tax exemption if the purpose of the foundation is regarded as publicly beneficial. Foundations have to file annual reports to regional or national supervisory authorities. After being established, the supervisory authorities only screen whether or not the foundations comply with their legal duties and whether the foundations act according to their defined purposes. The annual reports submitted to the authorities are not made public.

There are relatively few public regulations stipulating the governance of foundations in Germany and Switzerland. The so-called *Stifterfreiheit* (freedom of the founder to decide on purpose, strategy and operations of the foundation) is emphasised and protected in Switzerland by the two umbrella organisations, *Profonds* and *Swiss Foundations*, and in Germany by the Association of German Foundations (*Bundesverband Deutscher Stiftungen*). Especially in Switzerland, the government takes a liberal stance on the rules and regulations governing non-profits. In both countries, the board is the foundation's ultimate decision-making body. A board cannot delegate fiduciary or legal responsibilities to the executive director or any other external party (Baumann Lorant, 2009). However, the law does not prescribe, or only subsidiarily prescribes, requirements in relation to many governance details such as rights, obligations and responsibilities, the handling of conflicts of interest, the constitution of the foundation boards, or the organisation of the foundations' grant-making activities (Sprecher, 2010).

Foundations are a special case of non-profit organisation, in so far as external control mechanisms, as executed through stakeholders, are largely missing (Frumkin, 2006). A member of the board of directors holds a powerful position. Board members need to ensure that the governance of the foundation complies with legal standards, but beyond this, there is hardly any external controlling agent or watchdog to monitor the quality and quantity of their work. In contrast to organisations that have a membership base or non-profits that receive state funding, there are no entities, groups or individuals that can make legal claims against the foundation when a grant application is rejected. The foundation is not subject to any external or internal monitoring other than the supervision of the regulatory authorities. Ineffective management and governance practices are not subject to public scrutiny. As a consequence, there is no inherent need for excellence (von Schnurbein and Timmer, 2010). The board is at liberty to make almost any decision relating to its grant-making programmes and internal governance structures.

Studies analysing the governance structures of foundations are rare, even though some exceptions exist. Diaz (1999) tries to capture the behaviour of grant-making foundations by proposing a theoretical framework, including a rational-actors model, a bureaucratic politics model and an organisational process model. De Andrés-Alonso et al (2009), using an agency-theory framework, analyse the determinants of the board size and composition of Spanish foundations. And Brown and Guo (2010) look at the key roles performed by non-profit boards in community foundations. However, there are no empirical studies that analyse the involvement of the executive director in governing grant-making foundations. Also, these publications are prescriptive and

focus on non-profits in general by proposing principles of good governance for boards (eg, Pointer and Orlikoff, 2002; BoardSource, 2010). Additionally, books proposing strategies for effective grant making (eg, Anheier and Leat, 2006; Frumkin, 2006) briefly touch on governance topics.

To gain more clarity on the governance of grant-making foundations, we turned to self-regulatory codes. The Swiss Foundation Code 2009 (Sprecher et al, 2009) is the first comprehensive manual of guidelines for the self-regulatory governance of grant-making foundations in Europe. Its existence can partly be explained by the hypothesis put forward by Bies (2010) that strong non-profit sectors and relatively weak public regulations lead to the development of self-regulation codes in the non-profit sector. The Swiss Foundation Code (SFC) specifically targets grant-making foundations. It is more precise and complete than the *Grundsätze guter Stiftungspraxis* (Principles of Good Foundation Practice) formulated by the Association of German Foundations. The *Grundsätze* not only target grant-making foundations, but are also applicable to all types of foundations in Germany. They are therefore less specific in their recommendations and place more emphasis on transparency and avoidance of conflicting interests in general (von Schnurbein and Stöckli, 2013). The SFC can be compared to the proposed governance principles of large foundations published by the Council on Foundations (2008) in the United States. However, the SFC is more concrete and covers more topics.

The SFC sees the board of directors as being responsible for ensuring that foundations uphold good governance practices. The first part of the code is mainly concerned with the board itself and how its constitution should be structured, its committees organised, and election and re-election rules formulated. The second part of the code deals with governance responsibilities regarding effective grant making, the evaluation of proposed projects, project monitoring and the allocation of grant-making funds. In terms of finance, the code proposes governance guidelines for the investment of endowments, for the formulation of an investment strategy and for choosing and controlling financial service providers. These governance responsibilities share some similarities with the responsibilities of boards summarised by Renz (2010: 130–1). However, differences exist, especially in the areas of financial management and the organisation of grant making. As grant making is the core function of foundations, decisions on granting strategies and granting approvals constitute fundamental governance tasks. Many foundations form granting committees for the specific programme areas where decisions on grants are taken. Other commonly found committees include standing committees that deal specifically with finance (investment), governance, the executive (presidential) and personnel. Temporary committees may be appointed for special purposes, such as strategic planning.

To sum up, it can be said that the governance systems of grant-making foundations share some commonalities with ‘regular’ non-profits that depend on external financial sources, but which also have their peculiarities. Due to their liberal regulations, their ability to act without providing public information, and their financial independence, foundations face relatively few external risks, even if the governance function is limited to a minimum. Effective foundations, though, are expected to have professional governance systems that also include the development and oversight of grant-making strategies. Normally the board is charged to fulfil this function. The prescriptive governance literature provides best practice principles for non-profit boards. However,

as mentioned above, evidence from empirical studies shows that more than simply the board members are involved.

## Who governs?

This leads us to the question of who is actually involved in governance and whether patterns of governance systems can be found. Many of the prescriptive approaches see a clear distinction between governance and management (eg, BoardSource, 2010; Fuechtmann, 2011). The board is there to govern and the executive director manages the daily operations. Clear job descriptions separate the roles so that all actors can carry out their specified tasks efficiently. However, these prescriptive approaches to non-profit governance that place the board of directors at the pinnacle of the organisation's managerial hierarchy have been questioned (Herman and Heimovics, 1990). Renz (2010) argues that it is not unusual for a chief executive to play an important role in governance. The focus on boards in research is heavily criticised by Cornforth (2012), based on a review of the governance literature published in three main non-profit journals over the last five years, namely *Nonprofit and Voluntary Sector Quarterly* [NVSQ], *Nonprofit Management and Leadership* [NML], and *Voluntas*.

Earlier studies emphasise the role of the executive in leading and governing non-profits. Fletcher (1992) highlights the executive director's key role in determining whether a board of directors works well. She shows that many executive directors are heavily involved in classical governance functions, such as:

- recruiting new board members;
- orienting new board members;
- participating in active board committee membership;
- policy making;
- supporting the board in strategic planning, financial oversight and setting meeting agendas.

Drucker (1990) emphasises the non-profit organisation's need to establish a clear and effective governance structure. He sees the most effective way to achieve this by assigning the responsibility for effective governance to the executive director and to make it one of their key duties. He proposes a dual partnership model. As policy making and policy execution cannot be divided as neatly as much of the prescriptive literature suggests, the board and the executive director should be involved in both functions and complement each other.

Herman and Heimovics (2005) speak of the board-centred leadership of chief executives. Their studies have shown (Herman and Heimovics, 1990) that along with the board chairs, chief executives are seen to be central to the organisation's success or failure. As implications thereof, the two authors provide a list of leadership behaviours of effective non-profit chief executives. Axelrod (2005: 143) states that it is hard to underestimate the key role of the chief executive in determining where and how the board invests its time.

These approaches are contrary to the claim of Carver (2006), who states that governance is clearly the responsibility of the board of directors. The different views seem to imply that the role of the board and the executive director vary from organisation to organisation. Murray et al (1992) as well as Saidel and Harlan (1998)

have developed different models that address power relations and the involvement of board and executive staff in governance.

Murray et al (1992) identify and describe common board power relationships. Based on in-depth case studies, the authors develop five patterns of power distribution:

- the chief executive officer (CEO)-dominated board;
- the chair-dominated board;
- the fragmented power board;
- the power-sharing board;
- the powerless board.

Non-profits with a CEO-dominated board rely heavily on the expertise and guidance of their CEO. The CEO is granted far-reaching decision-making powers and is normally a paid professional manager with many years of experience. The CEO plays an active role in formulating the organisation's strategy and preparing major decisions and is also in charge of managing the budget. The board only scans budgets and plans before giving them its approval. Other than that, it mainly takes a representative role and has little influence on the organisation's activities. The second pattern is practically the opposite of the first one. Here the chair of the board is the omnipresent leader, who almost fully controls the organisation. In this scenario, other board members rarely speak up or disagree with the chair and the CEO plays only a marginal role. The other three patterns deal with the power relations among board members and do not mention the CEO.

The roles of the board and the executive staff in the governance of non-profits have been studied by Saidel and Harlan (1998). These authors concentrate on non-profits that operate with government grants and contracts. The aim of their study is to show the distribution of governance responsibilities in relation to political advocacy and buffering (avoiding mission distortion due to grant/contract requirements). In order to understand the relationship between staff and boards, Saidel and Harlan develop a typology of non-profit governance patterns, as shown in Figure 1.

Figure 1: Model of staff and board governance activities

		Board activity levels in governance roles	
		High	Low
Staff activity levels in governance roles	High	Shared governance	Staff-dominant governance
	Low	Board-dominant governance	Bystander governance

Source: Saidel and Harlan (1998: 248)

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The model illustrates four ideal-typical patterns of governance by dichotomising board and staff activity into high and low levels of engagement. These four governance patterns are then labelled ‘shared governance’, ‘staff-dominant governance’, ‘board-dominant governance’ and ‘bystander governance’. In the first pattern – shared governance – staff and board members are more or less equally involved in governance activities; in the second and third patterns, one actor is dominant; and in the fourth pattern both board and staff are only weakly involved in governance. The models are not explained in detail. Because of the different objectives of Saidel and Harlan’s research, they do not deliver much information about the concrete structure of these patterns, nor do they indicate or investigate whether subtypes exist.

Based on a multinomial logistic regression analysis, Saidel and Harlan (1998) test hypotheses about the potential conditions that might give rise to governance patterns using the ‘bystander’ pattern as the reference category. They find that executive experience (tenure) and leadership are more likely to induce shared or staff-dominant governance roles than political advocacy or buffering. This means that the executive director has a key influence on the board’s level of activity and on the partnership between the board and staff in governance activities (1998: 252). Further results of their study show that where members of the board are highly respected by government officials, the board is likely to be more involved in political advocacy (1998: 253), and that where board members are members of a state-wide inter-organisational association, this increases the likelihood that the foundation will have either a shared or staff-dominant governance pattern (1998: 254).

In their conclusion, Saidel and Harlan see their results as consistent with Herman and Heimovics’ (2005) concept of a ‘chief executive leadership’ role in relation to the board. Similar to Fletcher (1992), Saidel and Harlan therefore emphasise the need to train or hire executives who are able to take over leadership responsibilities for the board or who are able to educate board members about their governance responsibilities. In their conclusion, Saidel and Harlan propose that further research should test whether the model of governance patterns is also applicable to non-profits that work without government funding.

Our overview of the literature has shown that boards are not the only power brokers in determining governance issues, and that it is therefore not clear why so much governance research has directed its attention to the impact of the board of directors on governance. Also, the clear dissociation between the duties of governance and the responsibility of management, which dominates the prescriptive literature, seems questionable: an executive director often plays an important role in the governance of non-profit organisations. Empirical evidence shows that different governance patterns exist as a result of the way in which leadership is shared between factions of the board and the managerial executive. We found the model from Saidel and Harlan to be most compelling in analysing the governance structures of grant-making foundations. However, we believe that the model can be refined. Before conducting our exploratory analysis, we hypothesised that we might find different subtypes within each governance pattern.

## Method and data

To answer our research questions, we followed a multiple case study approach (Yin, 2003). Our aim was to analyse the governance systems in our sample and to understand

which role the executive director plays in ensuring that the governance system works effectively. Due to the lack of empirical literature about the governance systems of grant-making foundations, we followed an exploratory approach, aiming for analytical generalisation (Thomas, 2011). Our main units of analysis were 12 grant-making foundations from Germany and Switzerland, selected by using the judgemental sampling technique (Babbie, 1998). Medium- and large-sized foundations that are members of a foundation umbrella organisation were selected for the interviews.

First, we chose two foundations that we were in close contact with and which were the most relevant in terms of the research questions. Our good relations with the executives of these foundations allowed us to address critical questions and identify further fields of interest that we might have overlooked in our initial research approach. Based on the results, we could refine our survey questionnaire and decide which further foundations would best serve our analysis process. Additionally, we added data on small foundations from prior research and data that we gathered through our institute's executive training and consultancy activities. Our case selection followed a clear rationale, being based on expectations about both similar and contrasting results.

The foundations in the sample were all legally incorporated foundations under German or Swiss law. We contacted 17 foundations out of which 12 agreed to participate. One foundation in the sample was not independent. This corporate foundation affiliated to a large bank in Switzerland received a budget from donations by the bank's customers amounting to approximately €2.5 million per year, which was directly used for grant making. We decided to include it in the sample for comparative purposes. All other foundations were private independent foundations that received their income from the payouts of their endowments. The smallest foundation had an endowment worth approximately €2.9 million, and the largest foundation, one of approximately €715 million. Accordingly, the money budgeted for grants varied between €0.5 and €24 million per year. The combined value of all endowments equalled around EUR 2.8 billion. The total worth of grants was approximately €107 million. The number of board members ranged from three to 13. The oldest foundation was established in 1948 and the youngest in 2006. The main granting areas were education, culture and social projects. The smallest foundations had one part-time employee and the largest 28 full-time employees. Most foundations were established by successful entrepreneurs. See Table 1.

Systematic data collection was achieved through a series of steps. A case study protocol was developed to guide the data collection process and to increase reliability (Yin, 2003). The first step of gathering data included collecting all publicly available information about the sample foundations. We then asked the foundations to send to us a range of documents that were specific to our research interest. These included board minutes, bylaws, granting policies, board compensations policies, job descriptions, budgets or any other internal governance policies the foundations had in place. As a final step, we scheduled interviews with the executive directors of the foundations. The questionnaire was based on the SFC 2009 (Sprecher et al, 2009) and the literature discussed above. We formulated 48 questions based on these sources. The questions were structured according to the main chapters of the SFC. The first set of questions aimed at determining the composition, structure, functions, compensation and performance of the board of directors. The second set asked about the role and competencies of the executive directors and their relation to the board. Specific questions about administrative and strategic decision-making powers were

included. The third part of the survey covered the foundation's grant management and programme evaluation. The fourth and final part addressed financial stewardship, conflicts of interest, as well as strengths and weaknesses of the implemented governance system. Additionally, respondents were asked to sketch out organisational charts that showed the internal governance structure of the foundation. The semi-structured interviews were held with executive directors in a conversational style, posing probing questions to clarify and refine the information and interpretations from previous data collections and analyses (Corbetta, 2003; Stake, 2010). This flexible and open conversation style also enabled us to understand the interdependencies between the respective governance mechanisms and how they have developed.

**Table 1: Description of the sample foundations**

	Year founded	Endowment € million	Grants 2010 € million	Granting areas	Staff (FTE) <sup>1</sup>	ED granting competence <sup>2</sup>	Governance model
A	1948	95	7	Education, science & entrepreneurship in telecommunication	110%	3,000	Board dominant
B	1963	95	3	Social, education, environment, culture	240%	10,000	Staff dominant
C	1971	800	24	Social, education, environment, culture, science	750%	50,000	Shared
D	1971	715	24	Education, science, culture	2800%	75,000	Staff dominant
E	1980	260	8	Science, culture, social	470%	no ED	Board dominant
F	1981	2.9	2.5	Education, integration	130%	10,000	Staff dominant
G	1994	78	10.5	Social, education, environment, culture	180%	no	Shared
H	1997	175	9.1	Education, science, entrepreneurship	400%	30,000	Staff dominant
I	2000	8	0.5	Culture, health, science	45%	no	Board dominant
J	2004	80	5.5	Social, education, science, culture	300%	no	Staff dominant
K	2005	390	4.5	Social, education, science, culture	1700%	200,000	Staff dominant
L	2006	107	9	Science, youth, intercultural understanding, environment	800%	no	Shared

: FTE = full-time equivalent. 100% means one full-time employed person.

<sup>2</sup> Upper value of grants that can be approved by the executive director without consulting the board.

The interpretation of the data followed a pattern-matching logic that allowed us to compare the governance systems and board–staff relations derived from the literature on the empirical-based governance patterns (Yin, 2012). For the pattern matching, we specifically looked at the different governance tasks and analysed who took over the main responsibility. The software package Maxqda 10 was utilised for coding and cross-case synthesis. We coded:

- 0 if a governance function was not fulfilled (eg, no conflict-of-interest policy in place);
- 1 if board members fulfilled the function or had a leadership position in drafting and implementing policies;
- 2 if the board chair was the dominant person;
- 3 if the executive director was the main driver and held ultimate responsibility;
- 4 if the responsibility was shared.

We used frequency tables as a basis for discussion. To establish converging lines of evidence and to increase the internal validity, each case was first analysed independently by two researchers (investigator triangulation). The interpretation of the data was then discussed within the research team. The inter-coder reliability was high from the beginning. In cases of disagreement, we discussed rival explanations and then agreed upon the attribution. We then clustered the cases according to the typology of Saidel and Harlan (1998) and developed ideal types for each governance pattern. To account for in-type variations, we also discussed subtypes of the governance patterns. Finally, we developed typical organisational charts to display the structure of the governance patterns for comparative purposes. These itemise the typical features identified in the empirical cases. The charts significantly contributed to our understanding of the internal governance structure of grant-making foundations.

## Findings

The assumption that the executive director often plays an important role in foundation governance was revealed to be true. However, considerable differences in governance leadership activities were found to exist. It was possible to cluster the governance structures according to Saidel and Harlan's (1998) matrix. Therefore, our findings show that their model is applicable for describing the governance systems of independent grant-making foundations, answering one of the research questions that they themselves posed. To account for in-type variations, we extend and refine their model. In the following, we provide some generic results before illustrating the ideal types (Weber, 1988) of governance pattern that we derived from the individual cases. These serve as a tool for conceptual clarity. We also provide organisational charts to showcase typical ways in which the governance of grant-making foundations can be structured.

Most foundations followed a pragmatic strategy they considered most effective for achieving the foundation's aims and most efficient in the deployment of their human resources (board and staff). In three of our cases, the board and the staff were equally active in governance (shared). Six cases can be defined as 'staff-dominant', and three foundations in the sample were considered 'board-dominant'. We added our knowledge of other, mostly small foundations to be able to describe the 'bystander'

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pattern. Due to our small sample size, we refrain from making causal statements. However, it seems that the determinants that characterise the governance types include factors such as:

- the tenure of board and staff members;
- trust in the executive director;
- presence of the founder on the board;
- the age of foundations;
- the complexity of their programmes.

In our open conversations, we also realised that the establishment of governance models within these firms was contingent on the personalities serving on their boards. The substitution of board members had stronger effects on the internal organisation of the foundation than any policy implementations.

Even though similarities in committee structure or compliance with legal requirements could be found among foundations with the same type of governance patterns, the individual cases showed significant variations in their detailed configurations. Within the board-dominant model, our interviews with the foundations' executive directors showed that board members' leadership roles differed among these boards. In one case, the board was led by a former director of a large hospital. He was the omnipresent leader of the board, had a de facto veto right for all decisions and also headed the most important committees, such as finance and granting. Almost no decision was taken without him and little or no criticism was voiced by other board members. This case can be best described as a chair-dominated board (Murray et al, 1992). We found a similar situation in a foundation where the founder was the chair of the board. In the other cases with the board-dominant pattern, board members shared the responsibility of governance tasks equally. Decisions were taken after deliberate discussions, and consensus among board members was held important. Board members were equally distributed among the committees.

Contrary to Saidel and Harlan, we did not assign foundations to the 'shared' governance pattern if the executive director ensured that the board members fulfilled their official governance duties. If the executive director exercised effective board leadership and exerted a major influence on foundation strategy, also implementing mechanisms to ensure that the board fulfilled its normative governance roles, we assigned the foundation to a staff-dominant or CEO-dominant governance pattern, as the executive's effort is the causal variable for board engagement in governance.

The foundations with shared governance patterns also displayed some variation in their individual configurations. In some cases, the executive was a member of various committees and worked together with almost all board members, depending on his or her specialist expertise (eg, finance, law). Here governance tasks were pragmatically shared by board members and the executive. In other cases, special emphasis was given to the executive committee. The committee was either formally institutionalised or consisted of the executive director and the chair of the board, who convened for frequent informal meetings. All major decisions were prepared by both individuals and then presented to the board. A good working relationship between these two function holders was seen as being a major success factor in effectively -run foundations. This model can be described as a subtype of the shared governance pattern with 'executive committee domination'.

In terms of governance task, three functions were considered to be most important across all cases:

- strategic planning (setting the goals of the foundation);
- decisions relating to grants (determining how to reach goals);
- asset investment/controlling (financially facilitating the foundation's work).

Impulses for the strategic planning process were almost always initiated by the executive directors, with the exception of board-dominant governance cases. Our interviewees reported having difficulty in getting board members to engage in processes that demanded heavy time commitments. Most board members were very successful in their own professional fields and often held numerous honorary positions. In one case, an executive director scheduled one strategic planning retreat per year, with obligatory board member participation. In contrast, the foundations that had few formal procedures in place described strategy development as an ongoing process. Board members and executive staff jointly determined the granting strategies during board meeting discussions. They mentioned that there was common agreement on the general principles and values underpinning their decisions, even if these were not written down.

The decision determining which projects should be funded was seen as a fundamental governance task. In staff-dominant and shared governance cases (with executive committee domination), the executive director (and the board chair) preselected grant applications and presented these to the full board. In these cases, the executive directors reported high approval rates, even though they did not feel that the boards simply rubber-stamped their proposals. Grant applications were discussed within the board or in the granting committees before approval was given. Final decisions were reported to be taken almost exclusively unanimously. In foundations with a staff-dominant governance pattern, executive directors were granted freedom to decide on their own on grants amounting to a defined limit (eg, €100,000). In board-dominant cases, staff members only screened the applications for compliance with formal requirements. Staff members did not participate in the granting committees.

Since the foundations in our sample possessed considerable assets, the safeguarding and controlling of these investments required sound financial expertise. In six cases, foundation finance committees formulated an investment strategy and defined a mix of different asset categories that a portfolio ought to consist of. The oversight of financial matters was reserved solely for the board. Even in the cases identified as staff-dominant, contact with the financial service provider and control of the investments were handled by the board. There was only one case, approximating the CEO-dominated pattern, where the executive director was also the main contact person for the bank and prepared investment strategies to be signed by the board.

Further findings showed that the most critical areas of governance in grant-making foundations were to be found in the compensation of board members and conflicts of interest. Some of our interview partners declared that board members often tried to privilege peers and friends in funding (especially in science). In two cases, board members charged the foundation for 'additional services' that exceeded their voluntary services. Almost none of the foundations conducted formal reviews of the executive director's performance. Two interviewees mentioned that they would like the board to formalise review procedures in order to receive more detailed feedback on their

work. There was little board monitoring of executive staff. However, as these findings do not relate to our main research question, we will not go into further detail.

### *The four governance patterns as ideal types*

In order to extend Saidel and Harlan's model, we developed ideal types of governance patterns for grant-making foundations. With these we intend to showcase how the governance of grant-making foundations tends to be organised. In addition to having identified types of governance that operate in foundations, we present the characteristics associated with each of these in organisational charts for the purpose of comparison (see Figures 2 to 5). The charts were created by analysing the data drawn from our own empirical analysis. They display the individual characteristics associated with our empirical cases and clarify our analytical understanding of the internal set-up of grant-making foundations by providing an immediate visual overview of the research findings. As mentioned, our data do not allow us to make strong causal statements; however, we are able to provide tentative explanations as to how the patterns emerge.

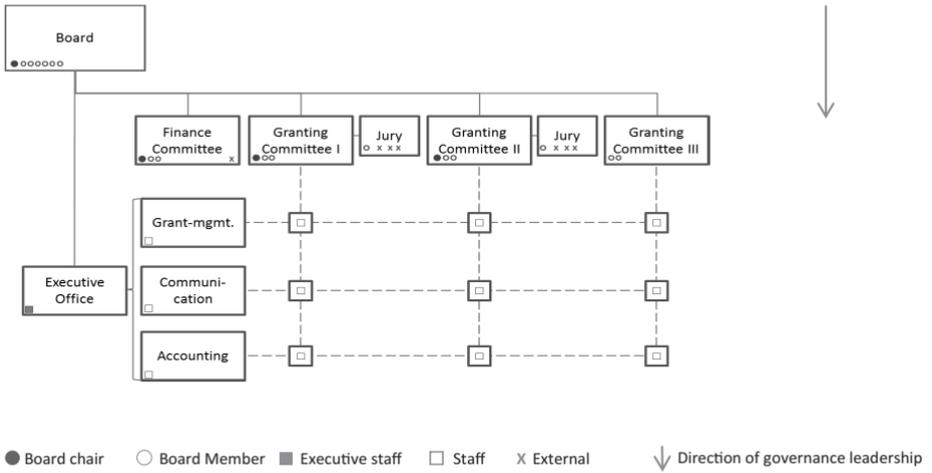
#### *Board-dominant governance model*

The board-dominant model (see Figure 2) can best be described as a traditional or normative model. It follows the principles of mostly descriptive literature that sets a clear boundary between the duty of governance and the responsibility of management. Here, the board ensures that fiduciary and legal requirements are met, engages periodically in strategic planning and takes decisions on programme areas and grants. Regulations concerning the internal organisation of the board, re-election rules or policies regarding the compensation of board members are prepared in the governance committee. The board chair may dominate the overall leadership of the foundation. Board members are part of established granting committees. In a matrix organisation, these committees are supported by staff members. However, the executive office plays only an administrative role. Granting applications are only screened for compliance with formal rules and then forwarded to the granting committees where the decisions are made. In the case of complex programmes (eg, science), an external jury may be established to support committee decisions. The granting committees usually have far-reaching authorities, as they comprise board members. However, long-term projects or grants of exceedingly high amounts are usually decided by the full board, based on a recommendation made by the granting committees. Staff members are expected only to execute decisions made by the board and can best be compared to a secretarial role. Board members take an active part in managing the foundation. Factors that may lead to board-dominant models are long tenure of the board members and the presence of the founder on the board.

#### *Shared governance model*

The shared governance model (see Figure 3) can also be described as the 'partnership model'. Even though the board is still very active in governing the foundation, many decisions are proactively prepared by the executive director and staff members. A presidential committee serves as a means for quick exchange between the board chair

Figure 2: Board-dominant governance model



Note: In Figures 2 to 5, the arrows on the right-hand side indicate the main direction of governance leadership. The different actors are illustrated by small objects. The placement of the actors in the boxes indicates their involvement. The further to the left that the object is placed within one box, the greater is the extent of this person's leadership in governance tasks.

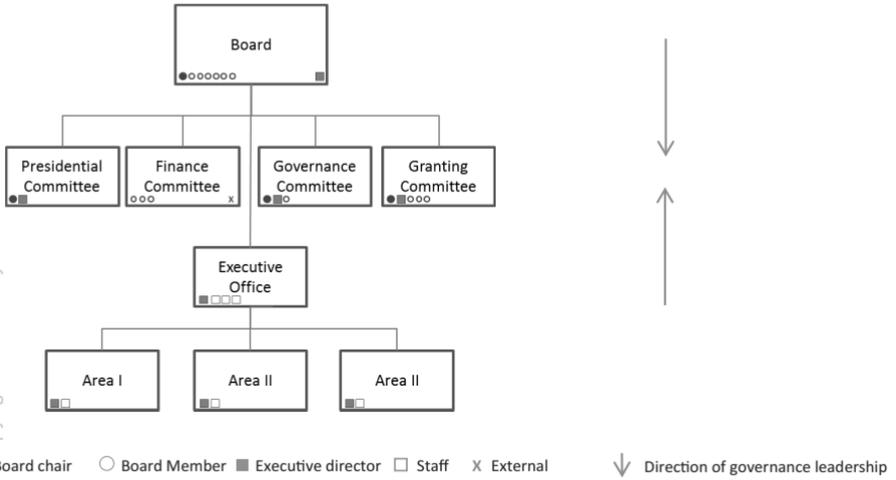
and the executive director. Decisions on grants are mostly prepared by the executive director, but the board members all hold decision-making power. The executive director also has a seat on the board and granting committee without voting rights, but has the ability to issue recommendations and to argue in favour of a granting decision. They may also support the board in preparing governance policies and ensuring compliance with legal and fiduciary regulations. The representative role of the foundation is still fulfilled by board members, even though in daily work it is the executive director who embodies the foundation. The strategy of the foundation is organised jointly by the staff and the board. However, the executive director makes sure that granting areas are organised in accordance with the strategy. They might have decision-making power on smaller grants. Projects and grantees are monitored by staff members. Programme progress and results are reported to the board by the executive director. An executive committee may dominate the governance of the foundation. Factors that may lead to the shared model are long tenure and experience of the executive director and long tenure of board members, as well as complex granting areas.

**Staff-dominant governance model**

Within the staff-dominant model (see Figure 4), the executive director is the driving force in the governance of the foundation. They make sure that all regulations are met, draft policies for the board and ensure that board members comply with their formal duties. The board still gives formal approval to decisions; however, board members assume a passive role and do not question many of the decisions prepared by the executive director. The overall strategy of the foundation is prepared by the executive director, and the programme areas are defined accordingly. In public, the executive director is seen as the representative of the foundation. The executive director also assumes an active role on all board committees. In some cases, they are

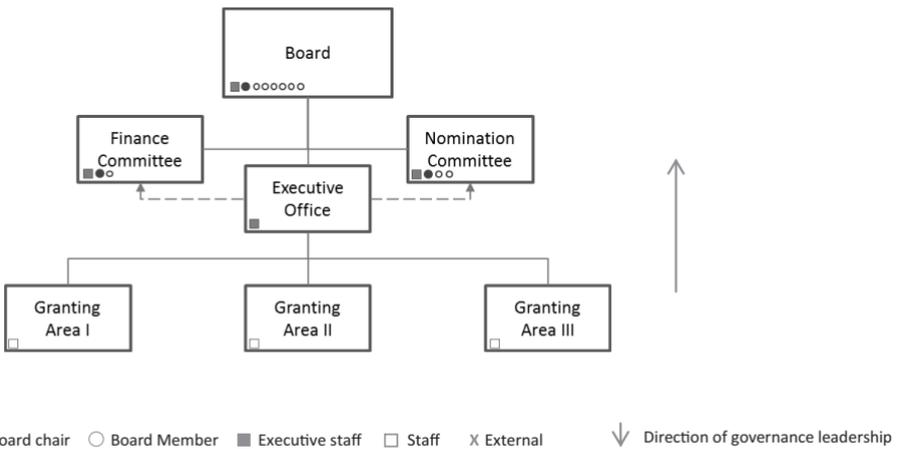
granted voting power. The investment policy and safeguarding of the endowment are also carried out by the executive director in combination with the chair of the board. In the staff-dominant model, the executive director is privileged with a great amount of trust and the board supports their work. The process of finding new board members is also driven by the executive director. In these cases, the executive director often has a track record of successfully leading larger organisations, and is given ample decision-making power as an incentive to work for the particular foundation. Factors that may lead to a staff-dominant model include highly professional search processes for the executive director, a relatively young age of the foundation and the board's trust in the capabilities of the executive director.

Figure 3: Shared governance model



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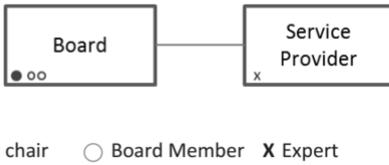
Figure 4: Staff-dominant governance model



*Bystander governance model*

The bystander governance model (see Figure 5) sees neither the board nor the staff as actively involved in governing the foundation. Small foundations in particular, representing the majority of all foundations in Germany and Switzerland, follow this model. Small grants may be given to individuals or institutions each year by the board; however, all governance work is outsourced to an external service provider. These are often banks or law firms that helped during the establishment of the foundation. The boards are usually of small size and do not engage in any formal strategic planning process. Often the founder or family members decide on grants informally. Strategic planning is also not performed by the board or staff. Foundations are administered, but not strategically led. Factors characterising bystander models include small endowments, low complexity of granting areas, small boards and a relatively high age of foundation.

**Figure 5: Bystander governance model**



**Conclusion**

This article started by arguing that governance studies have focused too heavily on non-profit organisations, which depend on external funds. We also argued that even if various studies have shown the important role of the executive directors in governing non-profit organisations, most literature continues to focus on boards. We therefore aimed to start filling these gaps by identifying different governance patterns in grant-making foundations and by interviewing the executive directors of foundations. We showed that Saidel and Harlan's (1998) model of governance patterns can be applied to grant-making foundations. Whereas Saidel and Harlan put the emphasis on the relationship and decision-making processes between boards of directors and executive directors, our study adds to the existing knowledge that different structural patterns have an influence on the governance system. Hence, we extended the model and showed that subtypes exist within the patterns. As a further contribution, we tentatively identified some factors that may have a strong influence on the development of each pattern.

With regard to the time gap between the two studies, several questions for further research arise. First, one could analyse the changes in the governance systems using the theory of institutional isomorphism (DiMaggio and Powell, 1983). While self-regulation codes might be a sign of normative isomorphism, the results of the interviews point towards mimetic isomorphism as well. As transparency is gaining importance in society in general and more specifically in the non-profit sector, future research on governance in grant-making foundations should be linked to questions of legitimacy and reputation. These kinds of questions emphasise the role of governance

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with regard to not only the foundation's internal organisation, but also the structure of relationships with external constituents.

Our study would have also benefited by including the views of board members in our analysis. We purposely decided to concentrate on executive directors, having greater organisational oversight than the board members as part-time volunteers. However, we strongly encourage others to conduct further case studies with more interview partners. We also strongly suggest that the models we presented be tested using quantitative methodologies. It also seems advisable to conduct longitudinal studies to see how governance patterns evolve over time, what happens in the case of crises and what impacts changes in foundation leadership have. Finally, it would be interesting to see whether granting areas of the foundations influence the governance of foundations.

The organisational charts shown in Figures 2 to 5 serve as a starting point for further studies, and also inform practitioners. The challenge for each grant-making foundation is to develop a governance system that enables the foundation to fulfil its purpose most effectively. Therefore, strict governance regulations may hinder the flexibility to react to quickly changing environments. However, roles and expectations need to be defined in order to prevent conflict. The best-governed foundations in our sample showed strong involvement of the executives in the governing of the organisations. Moving from other patterns to this one requires that the board decide to professionalise the foundation, by hiring executives who have specialised knowledge of the granting area and who also possess a strong functional knowledge of how to govern grant-making foundations. This also means investing in staff members.

Grant-making foundations continue to be black boxes. This article has shed some light on them, but still fails to illuminate the whole field. We hope that in the future, governance studies differentiate more clearly between the different types of non-profit organisations and that more studies look at grant-making foundations. This article has made a beginning. We hope that more will follow.

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## Note

<sup>1</sup> Private foundations are defined by section 509 of the Internal Revenue Code

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