MISSION STATEMENT

The Commonwealth Fund, among the first private foundations started by a woman philanthropist—Anna M. Harkness—was established in 1918 with the broad charge to enhance the common good.

The mission of The Commonwealth Fund is to promote a high performing health care system that achieves better access, improved quality, and greater efficiency, particularly for society’s most vulnerable, including low-income people, the uninsured, minority Americans, young children, and elderly adults.

The Fund carries out this mandate by supporting independent research on health care issues and making grants to improve health care practice and policy. An international program in health policy is designed to stimulate innovative policies and practices in the United States and other industrialized countries.

Publication number 1089

About the cover: The Audit & Compliance Committee of The Commonwealth Fund’s Board of Directors is responsible for the foundation’s fiscal controls and risk-management practices. Pictured here are Committee members Walter E. Massey (foreground), president emeritus of Morehouse College, and Committee chairman Samuel C. Fleming, president and CEO of Briland LLC.

Photo: John Troha/Redux Plus
High-Performing Foundations: The Role of Risk Management

John E. Craig, Jr.
The Commonwealth Fund

With the collapse of Enron in 2000, the subsequent unexpected corporate failures and accounting scandals, and, most recently, the financial crisis induced by the breakdown of the subprime mortgage market, risk management has become a major focus of boardroom attention. The Sarbanes-Oxley Act of 2002, sparked by the Enron and Tyco scandals, has spurred the reorganization of audit and compliance committees to better inform corporate boards of the risks companies face, and to assist management in dealing with them.

While few of the Sarbanes-Oxley measures apply directly to nonprofit organizations, the legislation occurred at a time of elevated attention to best governance and operating practices within the nonprofit sector. The sector’s heightened concern about best practices arose from media attention to examples of misconduct in some nonprofits in the early 2000s, followed by the Senate Finance Committee’s exploration of how best to address issues of their performance and accountability. The vigorous response by the Independent Sector, through its own Panel on the Nonprofit Sector, culminated in this year’s publication of Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations, which provides a framework for addressing many of the recognized needs for self-regulation by nonprofits.

While “risk” is not quite the four-letter word in the nonprofit sector that it has become in the corporate world, many of the principles advanced by the Panel on the Nonprofit Sector implicitly address it—for example, ensuring effective governance, annually reviewing the chief executive’s performance, maintaining appropriate separation of duties for key functions, undertaking periodic reviews of board performance, providing strong financial oversight, having plans in place for protecting assets, complying with all applicable federal laws and regulations, and managing conflicts of interest.

It is possible, even, that the principles do not go far enough in acknowledging that risk management is as important in the nonprofit world as in the corporate sector, and deserves conscious and concerted attention—with respect not only to avoiding harm.
to institutions, but also to controlling risks so as to be able to seize opportunities. As Melanie Herman and colleagues at the Nonprofit Risk Management Center note, “[the nonprofit risk-management literature] often describes minimizing or avoiding risk as the ideal without paying any attention to the inherent and desirable risks that nonprofits must take to accomplish their missions. An organization that designs its risk-management activities solely around the goal of minimizing or avoiding risk will miss out on opportunities…. Risk taking is inherently positive.”

Harvard Business School professor Robert Simmons elaborates on the constructive role that risk management plays in achieving organizational stability and strong performance as follows: “Taking risks is not in itself a problem—but ignorance of the potential consequences is an entirely different matter…. If managers are aware of the nature and magnitude [of risks], they can take appropriate steps to avoid the hidden dangers.”

On the face of it, private foundations—in contrast to other nonprofits and corporations—operate in a relatively low-risk zone: effectively managed, their endowments free them from the need to generate revenues through the sale of products and services or to access capital markets to fund growth or shore up balance sheets; with rare exceptions, foundations do not compete for clients; except when self-initiated or in extreme cases of misconduct, they receive little media attention; and they are not accountable to any electorate. Ironically, however, the very set of circumstances that protect foundations from market, media, and political forces expose them to fundamental risks. As noted in a Booz Allen Hamilton study of enduring institutions including the Rockefeller Foundation, a “negative effect of the robust risk-management system that endowments represent is that they can become insulating and shield the [foundation] from criticism and the pressure to perform well. Without a market test, the [foundation] must be motivated by loyalty and commitment to mission rather than by pressures from outside the organization. This can place a burden on the foundation to engage in constant and regular self-assessment.”

In the wake of Sarbanes-Oxley, a blue ribbon commission of the National Association of Corporate Directors published guidelines for audit committees that identified risk assessment and management processes as one of the three core responsibilities of these committees, along with financial reporting processes and the audit function. In bringing their governance and oversight structures up to date in recent years, many foundations, including The Commonwealth Fund, have charged their audit and compliance committees with an annual review, together with management and the independent auditor, of significant operational and financial risk exposures and the steps management has taken to monitor and control such exposures, and with a similar review of the quality and adequacy of management’s risk-management policies and procedures and its other internal controls.

In July 2006, the Fund’s Audit and Compliance Committee initiated a process for formally assuring fulfillment of these charges, using the framework summarized in this report. Because the literature on risk management in nonprofits is very sparse, and that on foundations all but nonexistent, we thought the Fund’s approach would be of interest to other foundations and the legislative and regulatory bodies that oversee them.
RISK EXPOSURE AND RISK MANAGEMENT AT THE COMMONWEALTH FUND

The Fund faces risk in eight principal areas:

- the endowment
- the strength and continuity of its board, executive leadership, and professional staff
- its existence as a foundation enterprise, including its particular value-added operating model combining grantmaking and intramural research, program development, and communications
- its programs and program strategy
- its reputation and image
- the viability of New York City as an operational base in the event of a catastrophe impairing the city
- its landmark New York City headquarters building
- regulatory compliance with respect to 1) financial reporting, payment of taxes, and the federal annual payout requirement; 2) self-dealing regulations and executive/director compensation standards; and 3) human resources management.

The table on the following page outlines for each of these areas the nature of the risks, an assessment of the level of risk, and the potential degree of impact of an event on the foundation’s well-being. Although not shown, the framework also includes the management strategies and measures that are in place to control risks. The arraying of risk areas in the figure is in descending order of probability and potential magnitude of impact should an event occur.

THE FUND’S ENDOWMENT

The Fund’s endowment is its sole source of income, and the endowment’s qualification as the highest area of risk is justified by market history and the experience of the Fund and other foundations in the 1970s, when a long period of stagflation (along with the high spending rate requirement between 1976 and 1984 discussed below) cut the purchasing power of endowments in half. Even with the boost of the powerful 1982–2000 bull stock market, the 10 largest mature foundations in the U.S. in 1965 with perpetuity as an objective had endowments in 2006 that, adjusted for inflation, were at just 66 percent of their value 21 years earlier. Reflecting both their loss in purchasing power and the emergence of numerous new large foundations, the average rank by assets of these 10 foundations fell from seventh place in 1964 to 39th place in 2006.6

Private foundations are a risky business: even with the boost of the powerful 1982–2000 bull stock market, the largest foundations in 1965 have still not recovered from the effects on purchasing power of stagflation and a high mandated spending rate in the 1970s and early 1980s.

<table>
<thead>
<tr>
<th>Year</th>
<th>1965 Assets (current dollars)</th>
<th>2006 Assets (current dollars)</th>
<th>2006 Assets (1965 dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>6,820</td>
<td>28,925</td>
<td>4,521</td>
</tr>
<tr>
<td>Combined assets (millions)</td>
<td>0</td>
<td>10,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Ten largest mature foundations in 1965 with perpetuity objective
## THE COMMONWEALTH FUND’S RISK ASSESSMENT PROFILE

<table>
<thead>
<tr>
<th>AREA OF RISK</th>
<th>NATURE OF RISK</th>
<th>RISK ASSESSMENT</th>
<th>POTENTIAL IMPACT ASSESSMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ENDOWMENT</strong></td>
<td>Catastrophic loss in market value/purchasing power; market value volatility incommensurate with objective of steady program spending; spending rate inconsistent with objective of perpetuity.</td>
<td>Moderate-to-high and noninsurable risk</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Unauthorized or fraudulent transactions.</td>
<td>Low and insurance-protected risk</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Loss due to breakdown in securities custody/safekeeping.</td>
<td>Low and insurance-protected risk</td>
<td>Low</td>
</tr>
<tr>
<td><strong>GOVERNANCE, LEADERSHIP, AND PROFESSIONAL STAFF</strong></td>
<td>Diminished performance of Fund leadership (Board/management); unexpected loss of CEO or other key executive(s); faulty presidential succession process; inability to recruit and retain strong professional staff.</td>
<td>Short-to-mid-term, low risk; long-term, moderate-to-high risk</td>
<td>High</td>
</tr>
<tr>
<td><strong>ENTERPRISE/OPERATING MODEL</strong></td>
<td>Legislative/regulatory actions threatening perpetual foundations, and particularly value-added foundations like the Fund.</td>
<td>Perennial moderate-to-high risk</td>
<td>Moderate-to-high</td>
</tr>
<tr>
<td><strong>PROGRAMS</strong></td>
<td>Misconceived programs; faulty execution of a program; weak communication of grant results to influential audiences; continuation of a program beyond period of meaningful impact.</td>
<td>Short-to-mid-term, low risk; long-term, moderate-to-high risk</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Grantee failure to deliver.</td>
<td>Low risk</td>
<td>Low-to-moderate</td>
</tr>
<tr>
<td></td>
<td>Grantee malfeasance.</td>
<td>Very low risk</td>
<td>Low</td>
</tr>
<tr>
<td><strong>REPUTATION/IMAGE</strong></td>
<td>Publications/research damaging to the Fund’s reputation for objective, scientific analyses.</td>
<td>Low risk</td>
<td>Moderate-to-high</td>
</tr>
<tr>
<td></td>
<td>Activities undercutting the Fund’s standing as an independent, nonpartisan contributor to sound public policy.</td>
<td>Low risk</td>
<td>Moderate-to-high</td>
</tr>
<tr>
<td></td>
<td>Staff or Board member misconduct.</td>
<td>Low-to-moderate and largely insurance-protected risk</td>
<td>Low-to-moderate</td>
</tr>
<tr>
<td><strong>CATASTROPHIC EVENT</strong></td>
<td>A terrorist or other catastrophic event fundamentally impairing New York City as the Fund’s operating base.</td>
<td>Indeterminate but possibly high risk</td>
<td>High</td>
</tr>
<tr>
<td><strong>NEW YORK CITY HEADQUARTERS BUILDING</strong></td>
<td>An event severely damaging the Fund’s headquarters building, or decreased building functionality and value as a result of inadequate maintenance and attention to office use needs (e.g., upgrading of technology).</td>
<td>Low-to-moderate and largely insurance-protected risk</td>
<td>High short-term event impact; low long-term event impact</td>
</tr>
<tr>
<td><strong>REGULATORY COMPLIANCE</strong></td>
<td>Failure to make tax payments, make required distributions, or perform filings required by regulatory agencies.</td>
<td>Low risk</td>
<td>Moderate-to-high</td>
</tr>
<tr>
<td><strong>FINANCIAL REPORTING, PAYMENTS OF TAXES, MEETING OF IRS PAYOUT REQUIREMENT</strong></td>
<td>Transgression of IRS self-dealing prohibitions; inappropriate compensation of executive or directors.</td>
<td>Low risk</td>
<td>Moderate-to-high</td>
</tr>
<tr>
<td><strong>HUMAN RESOURCES</strong></td>
<td>Failure to fulfill human resources regulatory requirements arising from a large body of employment laws and regulations.</td>
<td>Low risk (some risks insurance-protected)</td>
<td>Low</td>
</tr>
</tbody>
</table>
The Fund’s investment strategy, endowment management structure, and spending policy are designed to control the risks of a catastrophic loss in market value/purchasing power, market value volatility incommensurate with the objective of steady program spending, or a spending rate inconsistent with the objective of perpetuity.

The Commonwealth Fund’s risk-management measures include the following: a strong Board Investment Committee; diversified holdings and managers; strong staffing of the Investment Committee, including the use of high-level Cambridge Associates investment consultants; Investment Committee focus on asset class allocation and manager selection, with appropriate attention to correlations of returns across asset classes and managers; investment guidelines for each manager, including attention to use of derivatives; a 5 percent spending policy; a 60 percent/40 percent policy for the allocation of Fund resources between extramural grantmaking and intramural research, program development, and communications; and clear, timely endowment performance and budget reporting.

There are other risks associated with the endowment, e.g., unauthorized or fraudulent transactions and losses due to a breakdown in securities custody/safekeeping. However, given the controls in place for preventing events of these types, the insurance or indemnity coverage for most such events, and the relatively small order of magnitude of potential events, the risk of security breakdown in the endowment area is estimated as fairly low.

Governance, Leadership, and Professional Staff

Foundations—as vision- and ideas-driven professional organizations unexposed to market, electoral, or significant media tests of their capacities—are peculiarly vulnerable to life cycles of strength and weakness associated with the caliber of their governance, leadership, and staffing. Numerous histories of the foundation sector and of individual organizations—including studies of the Fund’s own history—demonstrate the potential for decline or loss of vigor even in top-ranked institutions.7

A culture of adherence to best governance practices, accountability, high standards and expectations for management and professional staff, as well as focus on feedback and performance assessment, can be an effective antidote to this industry hazard. Specific measures at the Fund to promote such a culture include the following: best-practice Fund governance documents and processes; a diligent and active Board Governance & Nominating Committee, charged with
With the substantial battery of leadership and staffing risk-management measures in place at the Fund, short- to mid-term risk is rated as low, but the Fund's Board and management are mindful of the potentially significant long-term risks in this area.

**The Private Foundation Enterprise/Operating Model**

Private foundations exist only with the continuing approval of the U.S. Congress under the federal tax code, and their affairs are subject to attention by their states’ attorneys general. Congressional focus on the sector waxes and wanes, historically, over a 15–20-year cycle, and was recently at a high point. To cite one example of the real enterprise risk arising from Congressional action, Congress in 1976 mandated a payout requirement defined as the greater of 6 percent of endowment market value or all investment income (interest and dividends and net capital gains). The history of financial markets demonstrates that, over the long term, endowments can be expected to generate average annual inflation-adjusted returns of no more than 5 percent. Thus, Congress’s 1976 policy amounted effectively to a “spend-down” requirement for foundation endowments, which remained in effect until 1984, when it was replaced with the current 5 percent payout rule.

Perpetual foundations, and particularly value-added foundations like the Fund, can therefore face considerable enterprise risk: mandated increases in the payout requirement beyond the 5 percent rate consistent with longevity; disallowance of intramural research, program development, and communications expenses as contributors to the annual payout requirement; burdensome regulatory requirements...
increasing administrative expenses and detracting from focus on programs; intrusive regulations impairing the foundation’s governance and management; and restrictions on some legitimate public policy activities of the foundation.

The Fund is very active in managing its enterprise and operating model risk, most recently in working with members of Congress during a 2003–04 congressional effort to disallow most intramural expenses in documenting fulfillment of the annual payout requirement. The foundation’s risk-control measures include the following: Fund leadership in the foundation community in promoting best practices and alerting the sector to threats; Fund membership in and support of effective associations representing the foundation and nonprofit sectors in legislative/regulatory matters; proactive relationships with Congress on foundation regulatory issues, strengthened by the Fund’s work with Congress on health care issues; clear presentation of functional allocations of Fund spending in the Annual Report, and public rebuttal when these are misrepresented in the press; and clear Board-approved guidelines to staff regarding appropriate public policy activities and safeguards against those activities prohibited by regulations (e.g., lobbying for specific legislation or engagement in political activity). The Fund’s Executive Vice President–COO is assigned particular responsibility for vigilance to threats in this area, precautions for avoiding them, and defense as needed.

Programs

Foundations like the Fund are rightly often characterized as “social venture capitalists,” and, as such, they are expected to take significant programmatic and grant-specific risks. At the same time, their resources are scarce and they operate in arenas populated with far more powerful and resource-rich players. Effectiveness is therefore achievable only through carefully designed program and communications strategies, strategy-driven grants portfolios, and risk management by skilled and experienced value-adding professional staff. As Joel Fleishman has written, “Before embarking on any strategic initiative, the extent of the risk must be examined, quantified if possible—and then embraced. This means accepting risk as an inevitable concomitant of innovation, much as business entrepreneurs or venture capitalists accept financial risk in pursuit of gain.”

Program risk arises from the eventuality that programs are misconceived (e.g., poorly timed, not grounded in realistic market analysis, not geared to the Fund’s strengths, or not coordinated with other Fund programs); faulty execution of a program as a
result of inadequate staffing or financing or unforeseen adverse external forces; weak communication of grant results to influential audiences; or continuation of a program beyond the period of meaningful impact.

The Fund’s array of tools for assuring effective programs is substantial: periodic Board reviews of each program, supported by independent external reviews; an annual “Making a Difference” report on program accomplishments to the Board and review by the Board every five years of the Fund’s entire program strategy, including strengths, weaknesses, opportunities, threats (“SWOT”) analysis when necessary; preparation and critique of annual program plans, including assessments of work in progress and plans for grants in the coming year; robust Board grant and Small Grants Fund vetting processes; annual comprehensive assessments of the performance of all grants completed over the preceding 12 months and case studies of selected completed grants throughout the year, focused on lessons learned for grantmaking; annual program officer performance reviews; and an effective program officer recruitment system. The short- to mid-term programmatic risk for the Fund is judged as low, but the long-term risk has to be regarded as substantial—dependent as program performance is on continuing strong leadership and staffing and on unforeseen external events.

Program risk encompasses also the risks of grantees failing to deliver and of grantee malfeasance. These risks are regarded as low, given the careful vetting of projects, oversight of grantees’ work by value-adding staff, and our strong Grants Management unit and processes.

To help assess program risk, The Commonwealth Fund rates the performance of all recently completed grants annually and draws lessons from the analysis.

Source: Annual Completed Grants Reports to the Commonwealth Fund Board of Directors.
The Fund’s reputation and image can also be damaged by staff or Board member misconduct (e.g., conflicts of interest, theft, misuse of the Matching Gifts program, plagiarism). Safeguards respecting such risks include the following: the Fund’s Code of Ethics policy, with conflict-of-interest and whistleblower provisions, and division of publications by the internal Publications Review Committee and Web Content Monitoring Committee, with external reviews of all Fund survey reports and, when needed, of grantee and other Fund reports; oversight by the Commission on a High Performance Health System of its reports; feedback from periodic audience and grantee surveys; and clear Board-reviewed guidelines to staff regarding appropriate public policy activities and safeguards against activities that could be perceived as partisan.

The reputation of The Commonwealth Fund rests on providing credible, reliable, timely, and unique information that meets the needs of influential customers.

Reputation/Image

The Fund’s reputation for objective scientific analyses and image as a first-class independent, nonpartisan contributor to sound public policy are central not only to achieving results through its programs and publications, but to protecting the foundation from punitive legislative/regulatory actions and to nurturing a wide array of partnerships with cofunders, professional and trade associations, and government agencies that leverage the Fund’s own capacities. Quality control of publications and sponsored meetings, avoidance of partisan activities, and high standards of conduct for Board members and staff are therefore essential.

Risk-control measures respecting the Fund’s reputation and image include the following: quality control of publications by the internal Publications Review Committee and Web Content Monitoring Committee, with external reviews of all Fund survey reports and, when needed, of grantee and other Fund reports; oversight by the Commission on a High Performance Health System of its reports; feedback from periodic audience and grantee surveys; and clear Board-reviewed guidelines to staff regarding appropriate public policy activities and safeguards against activities that could be perceived as partisan.
of duties among staff and among Board members/committees. The Fund’s business insurance coverage limits the financial risk arising from staff or Board member misconduct.

**Catastrophic Event**
In the post-9/11 environment, New York City institutions must take seriously the risk of an event impairing the city as an operating base, and the Fund accordingly developed its *Business Continuity Planning Manual* in 2002. The manual is updated annually and distributed to all Board members and executive staff. The Fund has established backup arrangements with sister organizations, and its information technology system is regularly backed up in an underground facility in New Jersey and in the Fund’s South Carolina emergency preparedness office. The foundation’s strong administrative team and the development in 2005 of a Washington, D.C., office also augment the foundation’s capacity for recovery from a catastrophic New York City event.

**Landmark New York City Headquarters Building**
The Fund’s ownership of a major New York City landmark building and use of it as its operating base give rise to both operating and financial risks, i.e., an event severely damaging the Fund’s headquarters building (e.g., fire) or decreased building functionality and value as a result of inadequate maintenance and attention to office use needs (e.g., information technology upgrades). Adequate building insurance helps protect against these risks, as does a strong program of building and office systems maintenance. Periodic appraisals of the value of the building are undertaken to assure adequate insurance coverage—although in a period of rapidly escalating market values for trophy East Side New York City properties, the adequacy of insurance coverage can never be certain. Even so, the solid construction of the building makes the likelihood of a total loss fairly low, and insurance coverage is judged adequate for covering the cost of temporary office space and building restoration. As with catastrophic event risk, a strong administrative team, backup arrangements with sister organizations, information technology systems backup in New Jersey and South Carolina, and the existence of the Washington, D.C., office also would reduce the impact of an adverse event on the Fund’s capacity to recover and resume operations.

**Regulatory Compliance: Financial Reporting and Payments of Taxes; Avoidance of Prohibited Self-Dealing Transactions and Excessive Executive/Director Compensation; Human Resources**
In addition to meeting the annual IRS payout requirement, the Fund must pay the federal excise and unrelated business income taxes that foundations incur and, like any employer, assure withholding of federal, state, and local payroll taxes. It must file annually a federal tax return (990PF) and an operational report with the New York State Attorney General, and complete a variety of other required financial regulatory filings.

The Commonwealth Fund does not compensate its directors, but does reimburse them for meeting-related expenses. The foundation has procedures to assure that its compensation of executives is appropriate and in keeping with practices at peer institutions, and it obtains periodically from an independent executive compensation consultant firm an
opinion on its executive compensation practices—the most recent such opinion having been obtained in April 2007.

Additionally, like any employer, the foundation is responsible for a substantial array of regulatory requirements and filings in the human resources area. Under Sarbanes-Oxley and in keeping with best practices, the Fund must also have a formal document-retention policy and systems for implementing the policy.

These financial, compensation, human resource, and documentation regulatory requirements or best practices add up to more than 40 required filings, payments, or postings annually, and at each annual pre-audit meeting the Fund’s Audit and Compliance Committee obtains assurance from management and the responsible officer that all regulatory requirements have been fulfilled. The Committee also at this time checks that all staff and Board members are in compliance with the requirement to complete each January the Fund’s Conflict of Interest Disclosure form.

CONCLUSION

In his recent book on foundations, Joel Fleishman observed, “Foundations require skilled leaders with an entrepreneurial mindset among their board members and program staff who are comfortable in calculating risk if they are to navigate the shoals of risk successfully.” Writing in The McKinsey Quarterly, Kevin Buehler and Gunnar Pritsch argue that good risk identification and risk-management practices free an organization to take on more risks that it could—and should—take on otherwise.

Every foundation is subject to risks, and identifying them and developing processes and frameworks for addressing them are keys to achieving high performance. As Buehler and Pritsch conclude, “Without adequate risk-management programs, companies may inadvertently take on levels of risk that leave them vulnerable to the next risk-management disaster, or, alternatively, they may pursue ‘recklessly conservative’ strategies, forgoing attractive opportunities that their competitors can take.”

Foundations are arguably particularly vulnerable to “recklessly conservative” strategies: they may avoid potentially high payoff projects or programs as a result of too much concern about the embarrassment of the possibility of failure and unwillingness to devote the staff resources needed to control project risks, for example; or they may hold too much of their endowment in “safe” fixed-income securities, ignoring the potential effects of inflation on such investments. Strong risk-management programs can help reduce this vulnerability.

All nonprofits, but especially private foundations, are also prone to focusing on routine risks like record-keeping and fiscal controls. While such risks are not to be ignored, thorough examination of risks faced by foundations—as indicated by the Fund’s own analysis—will generally reveal that the big-ticket risks lie in the areas of long-term leadership, the performance of the endowment, current legislative and regulatory requirements governing foundations, and the vitality of their programs. Assessing and addressing such exposures is a far greater challenge than managing routine risks, and should be the principal focus of foundations’ governing boards and chief executives.

The kaleidoscopic structure of the private foundation sector—tens of thousands of very small foundations, a few hundred midsize foundations, and a comparative handful of mega-foundations, each with uniquely faceted histories and operating principles,
and each with its own strategic direction—rules out a single set of guidelines for managing risk. But whatever approach a foundation takes to identifying and managing its risks, it will benefit from periodically addressing the following questions:

- Have board and senior managers communicated the core values of the foundation in a way that all understand and embrace?
- Have board and managers identified the specific actions and behaviors that are off-limits?
- Are board and board committee discussions structured to foster open, frank, and timely discussions of the major risks facing the foundation?
- Are control systems adequate for monitoring critical performance variables, bearing in mind that program success sometimes calls for new variables?
- Are control systems interactive and designed to stimulate learning? 

By addressing these questions, foundation boards, audit committees, and management can put their institutions on a stronger footing for achieving high performance.

NOTES

6 The Foundation Center, The Foundation Directory, 3rd Edition (New York, 1967); “Top 100 U.S. Foundations by Asset Size, 2005–06,” (accessed at www.foundationcenter.org). A number of the 10 largest foundations in 1965 were slow to recognize that the very low investment returns resulting from stagflation in the 1970s would persist for more than a decade, and had spending rates in the early part of the period well beyond even the required level.
13 Ibid., p. 5.
14 Adapted from R. Simmons, “How Risky Is Your Company?”.