

## MEMORANDUM

**To: Directors of the Public Welfare Foundation**  
**From: Thomas J. Scanlon**  
**Date: October 19, 2012**  
**RE: Sweet Grapes and Thoughts for the Future**

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Thank you all so much for your kind words and the tributes you paid me last evening and today. As I mentioned in the meeting, I am sending the new board members that I have had the pleasure of working with some thoughts on the future of the Public Welfare Foundation and on your roles as directors. The greatest tribute you can give me is to consider some of the ideas expressed in this memorandum, which deals with the concerns I have about the changes made five years ago in the governance and grantmaking of the foundation.

I am leaving in my fortieth year of service to the foundation because of term limits recently imposed. I opposed term limits then and will always oppose them. When Peter Edelman, Tom Erlich and I step down this year in the second wave of forced retirements, we will have lost a total of 176 combined years of experience, memory, and service to the foundation due to the new term limits. When Myrtis Powell and Juliet Garcia leave next year, no director will have even a five year direct knowledge of the foundation's record and history.

Five years ago, the foundation made numerous changes in its governance and grantmaking that undercut many of the traditional qualities and values that have characterized PWF since its founding in 1947. These qualities had gained for PWF a reputation as an innovator, open to opportunities, and supportive of new ideas and fledgling organizations that went on to play important roles in our society and the world.

At a number of points in the memo I will mention our founder, Charles Marsh. Please don't think that I believe that he set the agenda for the foundation 65 years ago and that we are bound to follow his ideas slavishly. What does merit continuous remembrance and respect, however, are the culture and the traditions fashioned for the foundation over decades by a relatively small group of directors, some of whom were closely connected to him and others, like me, who never knew him. They were rooted in Marsh's original vision and inspiration but adapted to the developing needs and opportunities of the times. This organizational style or "personality" was the very basis for the excellent reputation the foundation enjoyed. In 2007, we wiped the slate clean of many of the foundation's traditions, values, and culture in a way that was, in my opinion, both unwarranted and unwise.

When I first decided to write this memo, I spoke with Richard Boone, a man whom I always considered a mentor in philanthropic matters. Dick directed the Field Foundation in the late '70s after helping Sargent Shriver start the anti-poverty program. Based on our personal collaboration, Field and PWF started the Center on Budget and Policy Priorities,

created an organization to settle Indochinese refugees (or “Boat People”), and started “intermediary organizations” that went on to provide tens of millions of dollars to youth employment and youth service organizations.

“Don’t let it sound like sour grapes,” Dick said to me, and I agreed. While I do not approve of board decisions made five years ago, I would never leave the foundation with any animosity or hostility toward anyone. When it comes to PWF, all my grapes are sweet.

My grapes are sweet because I have:

- Enjoyed the opportunity to serve with Claudia Marsh, Antoinette and Robert Haskell, Veronica (“Trippy”) Keating, and Don and Beth Warner, individuals who were close to our founder, Charles Marsh, and knew him as his wife, daughter, grandson, secretary, step-son-in-law and step-granddaughter. They drew for us a direct line to the wishes and philanthropic practices of our founder.
- Seen our assets grow from \$11 million in 1973, when I joined the board, to close to \$500 million today, and to have been be a party to the decisions that led to that growth. We have made grants of over \$500 million to thousands of organizations led by charismatic leaders serving on the front lines of service and social change. (I have always said that our grantees had much more difficult jobs that we had, and that we could not exist without them).
- Been involved in the approval of over 98 percent of all the grant funds the foundation has ever provided to its beneficiaries. (Prior to 1973, the foundation had made grants totaling less than \$8 million).
- Served as chair of the board for 12 years, longer than any other individual, at a time when our assets grew by 86 percent, when we purchased and renovated the True Reformer building, and when we published the two-volume set containing the biography of our founder (*Anonymous Giver*) and the history of our grantmaking (*Seeking the Greatest Good*).
- Been part of a productive partnership with Larry Kressley, who served as Executive Director of the foundation during 11 of those years.

Many have asked why I remained on the board after 2007. I did so for several reasons: my love of the foundation, my acknowledgement of the value of present grantmaking, and because I have always relished the opportunity to be a part of any institution with resources like ours to make improvements in society. Finally, I remained because I believe the new directors joining the board offer excellent prospects for continued good stewardship for the foundation. At no time was that more in evidence than today. I will miss greatly the opportunity to continue to be associated with such a remarkable group.

In order to restore some of the traditional values and qualities of the foundation, I am urging you to consider five things: 1) long-term service on the board; 2) becoming a more active board of directors; 3) becoming opportunistic in our grantmaking as well as strategic; 4) recreating the balance between direct service, advocacy, and empowerment; and finally, 5) restoring the global vision of the foundation.

### **1) Long-term Service on the Board**

The issue of “term limits” for foundation members is a subject of perennial debate. I prefer to state the terms of the debate in a somewhat different way, by contrasting the value of long-term service on a foundation board with the presumed values of restricting the number of years a director can serve. For me, the benefits of unrestricted long-time service of directors are obvious and I believe the history of the Public Welfare board illustrates them.

Until 2007, we had “terms” but they were staggered and renewable. We had one case in my 40 years as a director when it was necessary to remove a director. The fact that the director’s three-year term was coming up for renewal was helpful in carrying out that unpleasant but necessary action. Otherwise, our pattern was to maintain directors and their knowledge, experience, memory, and commitment to the foundation for an extended and indefinite time. The result was a board made up of individuals who made service to the foundation an important part of their lives. Trippy Keating, Edgar Berman, Pete Scoville, and Don Warner served on the board until they died. That their service and that of other long-term directors contributed greatly to the growth of the endowment and the effectiveness of our foundation’s outreach to “those in greatest need” is indisputable.

What are the benefits of “term limits”? The one most usually proffered is based on the pessimistic assumption that some directors will outlive their interest and usefulness. Terms that are renewable, subject to a board vote, serve the same purpose.

Whatever the purported advantages of term limits are, they do not outweigh the disadvantages. Restrictions on terms of service and continuous rotating of board members inevitably result in a reduction in board activism, continuity, and preparedness to carry out the board’s fiduciary responsibilities. They tip the balance of power from the board to management and staff, whereas ultimate power should remain with the board, which has the ultimate responsibility for the organization.

### **2) Becoming a More Active Board of Directors**

Our newly constituted and newly recruited board is an excellent one with wonderful skills, knowledge and commitment to social change. Likewise, the Public Welfare Foundation is a extraordinarily well run institution. As we saw today, Mary McClymont and her staff do a brilliant job and are capable in every way of responding to board decisions to develop new initiatives or to implement some of the ideas in this memo. None of them had anything to do with the changes that the board made five years ago.

PWF complies with all of the “best practices” described in the usual places such as BoardSource and the guidelines set forth by notable accounting and law firms (the only exception would be that most descriptions of “best practices” call for four and not three board meetings a year). Yet the present PWF board does not play the kind of active role in foundation matters that we did previously. Before 2007:

- The full board met four times a year and a special committee of the board (made up of anyone wishing to serve) met an additional four times a year to review smaller grants. On frequent occasions, these meetings would be held in directors’ homes and be followed by a dinner where wide-ranging discussions of subjects relevant to our foundation were often held.
- A personnel committee existed to deal with any possible personnel disputes and oversee salary and benefit programs and issues. The committee was instrumental in dealing with a very difficult reduction in force ten years ago. If it had still been in existence, I believe it could have avoided a threatened lawsuit two years ago by resolving that particular personnel issue long before it got to the point of possible litigation.
- A program committee convened annually to review guidelines; set grant targets by sector; and consider new initiatives. (New program ideas were also often suggested in board meetings).
- The foundation had a policy that both encouraged directors to identify potential grantees and assured careful review and scrutiny of those referred grant seekers by the staff and board.
- For many years, several PWF directors would attend the annual meetings of the Council on Foundations. I have fond memories of attending these meetings with my fellow directors and PWF staff in Los Angeles, Toronto, Philadelphia, Chicago, and New York City. This practice contributed to the knowledge essential to carry out our board functions. It created greater cohesiveness among board members, and greater consensus between board and staff about the programs of the foundation. Also, it enriched our understanding of the directions that philanthropy was taking at the national and international level.
- On occasions, board members traveled with foundation staff to develop programs. Myrtis Powell went to South Africa with Larry Kressley, Don Warner went to El Salvador, Juliet Garcia to Mexico, and I identified projects in Haiti and Mexico.

The result of the above was that directors spent more time together and developed a stronger ability and the confidence to oversee all aspects of the foundation’s functioning and grantmaking. We were an “active” board. While this level of active involvement is not necessarily called for in the usual lists of “best foundation practices,” my belief is that

it should be. Our level of board involvement may have been unique, but I think we set an example for “very best practices” if you will.

This kind of active involvement of boards is more important today than ever. An active board helps fulfill a call made by James Canales, chief executive of the James Irvine Foundation in a recent *Chronicle of Philanthropy* article to “banish the culture of deference that is too often found in our board members.” A more active board is the answer to Pablo Eisenberg’s pessimistic views, also expressed in the *Chronicle*, that we can never expect real public accountability of non-profit boards and that other mechanisms are needed to ensure high standards of performance such as national inspectors general and third party oversight committees.

I feel so strongly about independence of the board that I have never been comfortable with the term “board development committee.” It could imply that the board is not yet developed or ready to exercise its fiduciary role. What is worse, it could imply that it is up to management or staff to see to the creation of the board. We often hear this idea. The appropriate relationship is the reverse: a strong board “develops” the management of the foundation.

I remember being in an annual meeting of the Council many years ago. I was attending a workshop on advocacy. Several advocacy enthusiasts, all of them foundation staff members, spoke excitedly about this important role for private foundations. I raised my hand and asked, “What do you do if some of your board members don’t happen to agree with what you are advocating?” The answer floored me. “Then,” the panelists said, “you need to change your board.” His answer was the perfect illustration of how off-kilter board and staff relations can become in the foundation world.

### **3) Becoming Opportunistic as well as Strategic**

In 2007 we were told that we suffered, as many traditional foundations did, from “scatteration,” i.e., too many projects in too many areas of interest. We were urged to focus more carefully on carefully-defined programmatic objectives and “to identify and frame problems and to determine whether systematic changes have been set in motion.” Management called for us to set program objectives and ask potential grantees how to reach those objectives.

There was truth in this analysis. There had been mission creep over the years and our funding was dispersed throughout too many program objectives. In the end, however, I think we went too far. We threw the PWF baby – and many of its best qualities – out with the bath.

Essentially we embraced the new philanthropy – strategic philanthropy. To understand this trend and some of the misgivings about it, I want to quote from some outside experts here. Stanley Katz, writing in the *Chronicle of Education* earlier this year, gave an apt description of this new thinking. He wrote:

Foundations have tended to reduce the number of program areas in which they give funds, to be more precise and detailed in their program objectives, to restrict project time frames, to establish benchmarks for continued financing, to evaluate grantees in a more precise manner, and to form partnerships with grantees in managing their projects. Paul Brest, the very able president of the William and Flora Hewlett Foundation, has summarized the new position: "The fundamental tenets of strategic philanthropy are that funders and their grantees should have clear goals, strategies based on sound theories of change, and robust methods for assessing progress toward their goals."

There are certainly benefits to strategic grantmaking and the present program of the Public Welfare Foundation illustrates them. We are identified several unique funding niches as we work to reduce the number of persons incarcerated in our country, to stop unnecessary detention of juveniles, and to advance worker rights.

My own personal view is that we are over-concentrated in these areas and that we could have a real impact with grants that are fewer and smaller in size. Our advocacy of health care reform, for example, especially at the state level, was highly effective (and was considered the most effective by Grantmakers in Health) yet it never crowded out the possibility of making grants to deal with other social problems or to assist new organizations or community groups.

The foundation does allow for "Special Opportunities" in its program guidelines but this does not open up the possibility for new initiatives as much as I would like. Our guidelines prohibit organizations from submitting "unsolicited" ideas. . Criteria for use of these limited funds has become highly restricted and limited to the foundation's "mission," i.e., strategic objectives. Mary's special initiative on civil legal aid for the poor illustrates just how exciting a "special opportunity" can be. I hope you do many more in the years ahead and that many suggestions for new initiatives come, as was the case in the past, from board members themselves.

Susan Berresford, former President of the Ford Foundation, has pointed out some of the limitations of the strategic approach. She did this in an article in the *Chronicle of Philanthropy* and in a speech delivered at the Fuqua School of Business at Duke University in 2007. Among the pitfalls of "strategic philanthropy" that she saw were 1) that it could "miniaturize ambitions" (i.e., settle for small, measurable short-term results); 2) that it could create outsized expectations or an impatience for results; and 3) that it could turn applicants into contractors who position their programs in ways to meet objectives set by foundations, rather than pursue their own ideas and goals.

Most importantly, however, she pointed out that it could stifle creativity on the part of the grantees and the foundation. She wrote:

In the same spirit, I think we should be careful about too many foundations shifting the way they operate to designing and driving all the work they fund, again the venture model. When I look back on my now 40 years in philanthropy at Ford, I see that half of the results I am proudest of came from ideas we might describe as "hatched at the foundation." But fully 50 percent came from ideas others brought to us because they needed money to make them happen and they took their chances with us. If too many donors seem to shut off openness and readiness to support ideas from outside our walls, we will cut off a source of creativity and undermine one rationale for our existence – being an R&D resource for the innovative ideas that spring from diverse populations.

Ms. Berresford contrasted the new or “strategic” philanthropy with the old. She concluded that the new/old effectiveness dichotomy should be abandoned. The “old” donors (I accept the sobriquet for the “old” PWF) were indeed interested in goals and results and that we should not say that they weren’t. Too much emphasis on the “new approach,” she stated, “has the capacity to damage our field. We should,” she said, “appreciate, rather than disparage charity.”

The adoption of a strictly strategic approach hampers what has been the most oft-cited and salient characteristic of PWF grantmaking, the responsiveness to new ideas put forth by new organizations. As I wrote in the introduction to *Seeking the Greatest Good*, my greatest satisfaction over the past 40 years of being a director has been to hear, time and time again from important institutions, that we were the first or one of the first foundations ever to give them a grant. Funding the first hospice in the United States and spreading the hospice movement around the United States was not something we planned to do. It came to us as an opportunity and we seized upon it.

Over many years, the public reputation of PWF has largely been based on our ability to be “risk takers.” I have used that term to describe us many times. On writing this memo, however, I began to think that “risk taker” is not the proper term. It did not take much of a risk, for example, to provide \$2,000 to Sesame Street in its earliest days so that TV sets could be made available for low-income children. It was not much of a risk to be among the first to support Bob Greenstein at the Center on Budget and Policy Priorities or John Adams at the National Resources Defense Council or Joe Elridge and Bill Brown at the Washington Office on Latin American. In retrospect, I believe that we were not so much risk takers as believers - believers in individuals, believers in a dream, believers in an idea whose time had come. We were, to use my favorite phrase, philanthropic opportunists. I urge you to give openness, responsiveness, and opportunism an equal place again on the scale of values that drive grantmaking of the Public Welfare Foundation.

#### **4) Restoring Direct Service and Empowerment of the Poor**

For several decades, the key operating principles of the foundation were a commitment to direct service, advocacy, and empowerment of the poor. In 2007, we walked away from two of these three key elements of our program.

Most foundations, even progressive foundations, see the challenge as achieving the proper balance between service, advocacy, and activism (or empowerment, to use our term). To this purpose, last year Philanthropy New York, a group made up of 285 grantmaking institutions, conducted a public panel discussion aimed at identifying successful ways of combining these three key social service tools.

##### *Direct Service*

I cannot recall when the board explicitly ruled out support for direct service and can find no mention of this decision in the strategic recommendations made in 2007 or in the guidelines that the board approved in subsequent years. Yet the description of the grant application process says that the foundation does not fund direct services. .

If anything, there has been renewed interest in direct service in some of the most important philanthropic institutions. Our new partner, the Kresge Foundation, which previously focused on building projects, has adopted a strategic approach but supports exclusively “organizations that provide critically needed assistance to individuals and families.” Their rationale is that such programs “anchor us in the challenges and promising practices of day to day human service work.”

To our founder, Charles Marsh, direct service was everything. It was epitomized by his creation of the agent system. As all of you will read in *Anonymous Giver*, his goal was to find people who would “distribute funds to needy people without their being compensated themselves.” He wanted no paid staff, no bureaucracy, no middle man. Ten years after PWF was created, Marsh had 89 agents spread throughout the world providing direct service to needy populations with practically no administrative or staff costs. This was about as direct as you could get. Foundation lore has it that Charles Marsh was the model for the Millionaire television program that was so popular in the 1950s highlighting anonymous gifts to individuals and families in dire need.

In January, 2003, Martha Toll of the Washington Regional Association of Grantmakers asked me to speak to a group of foundation staff about advocacy. She knew I was a director who supported advocacy programs but with some reservations. Larry Kressley was there and we handed out briefing papers showing PWF’s terrific advocacy record (going back to the ‘60s when Claudia and Trippy made grants to Mary Calderon’s very controversial efforts to promote sex education in the schools!)

The main point I made that day was that we should never let advocacy replace direct service in our scale of philanthropic values. Direct service organizations keep us in



contact with the individuals whose problems our policy work is aimed at resolving. They can, in themselves, be an important tool in community organizing and empowerment work. They bring the board and the staff to where “the rubber hits the road” and provide greater assurance that our time, effort, and resources have made a visible difference in the lives of individuals.

### ***Empowerment of the Poor***

We have removed another key prop of the PWF funding platform, empowerment of the poor. This commitment entered into practically everything we did, even advocacy. Larry Kressley always made a distinction between “inside” and “outside” advocates, the insiders being those directly affected by the problem – the communities themselves. Nowhere was this more important or obvious than in our environmental justice work where we enabled communities affected by pollution and contamination to become involved in advocating for change.

When we launched the Fund for Washington’s Children and Youth as part of our 50<sup>th</sup> Anniversary celebration in 1997 (a direct service project aimed at Ward 8, or Anacostia, one of DC’s poorest communities) we asked the communities themselves to establish the program criteria and to create an advisory council to help us decide on grants.

Through its community support efforts, carried out over decades, PWF established a unique reputation for supporting grassroots efforts and community change. I urge you to restore that reputation to the foundation by reviving its support for empowerment.

### **4) Restoring a Global Vision**

In 2007, the PWF board accepted – to my great regret – the argument that there was no place for us on the international scene where the problems of poverty, illness, and deprivation are so much greater than in our own country.

Charles Marsh’s philanthropic instincts and practices were first in evidence in Europe and the Caribbean. Our foundation’s first projects were in Jamaica, small “Peace Corps” type projects that brought improved water supply, vegetable gardens, and even gifts of wedding rings to couples to help them establish their legal rights. The international reach of his generosity spread rapidly. By 1953 the foundation was supporting orphanages in France and Burma and had agents in over 12 countries. Among them were Mother Teresa (yes, Mother Teresa) and Indira Ghandi in India; Roald Dahl in England and Noel Coward in Jamaica. Marsh’s philanthropic interests clearly extended to whomever in the world he could find “in the greatest need.”

In 2007 we were told “the Public Welfare Foundation lacks the on-the-ground expertise to assess the competence and effectiveness of [international] applicants.” In other words, we were told that we could not be “strategic” in international programs. The fact is that by being opportunistic and acting even without “on-the-ground expertise,” the foundation

pioneered numerous international programs that had lasting and far-reaching effects. Here, I will recount several of them.

- PWF was one of the first foundations to support microenterprise. Microenterprise development plays an important role in the plans of all development agencies today as an exceptionally effective means of promoting economic growth and creating jobs. Our first grant to Acción Internacional, who helped develop this tool, was in 1975 for a program in Brazil. We continued to support Acción with over \$3 million until the early '90s.
- PWF was among the first to make a grant to the National Resources Defense Council. We did this in 1973. In the early '90s, our support focused on the Atmospheric Protection Initiative and supported NRDC's efforts to combat global climate change. John Adams, who recently received the Presidential Medal of Freedom as founder of NRDC, said in 1991 that PWF "pushed us along a path that has been the center of our work for 25 years." We continued to provide NRDC with \$250,000 a year for the next fifteen years in support of its climate change initiative.
- PWF became, in essence, the sustaining member of the Arms Control Association, starting in 1973. Its work was lonely but critical especially in the 1980s when our leaders were advocating massive military build-ups and placing MX Missiles above ground on mobile platforms. We also provided core support for the Scoville Fellows Program for many years. The program continues to produce arms control experts today, a task that is as important now as it was then.
- In the last two decades, PWF supported two efforts in Africa that also demonstrated our ability to show leadership in international programs. We supported programs aimed at eradicating the practice of female genital mutilation, FGM, in Sudan, Somalia, the Gambia, Kenya, Guinea, and Egypt, and shockingly in New York City as well. We also carried on a program to educate the citizens of South Africa and other African countries on HIV-AIDS prevention. Both of these programs are now components of massive international campaigns, but this was not the case when we started them. Actually, our efforts to repair the damage to women by FGM started as early as 1974 with multi-year support to the Hamlin Fistula Hospital in Addis Ababa, Ethiopia.
- In the '70s and '80s we provided critical early funding to the Hesperian Foundation. The foundation wrote and distributes the world-renowned book entitled *Where There Is No Doctor*. The book provides guidance about how to deal with serious injury and illnesses in remote places that lack medical facilities. Our grant enabled the foundation to create the first translation of the book into Spanish – *Donde no hay doctor*. Larry Kressley serves on the board of the Hesperian Foundation today. He told me that "the Hesperian Foundation would not exist were it not for our help." It has now been translated into 122 languages and placed in the hands of over one billion individuals.

- Perhaps the greatest evidence that PWF can and has made a difference on the international scene comes from our experience with the Vietnam Veterans of America Foundation. In 1991, we awarded the Vietnam Veterans its first grant. It was for a direct service program in Cambodia to provide prosthetics to individuals who had lost limbs due to landmines. The Vietnam Veterans had a dual purpose that included efforts to ban the use of landmines as well as eradicate those that already existed. We showed interest in this advocacy effort as well and awarded them over \$800,000 during the 1990s. In 1997, the foundation received the Nobel Peace Prize for co-founding and coordinating the Global Campaign to Ban Landmines.

## **Conclusion and Parting Wish**

I hope you will forgive me for laying out so many challenges – so many hopes for a board that next year will become a totally new group of individuals responsible for the future of the Public Welfare Foundation. Forgive me also for the strong opinions and views expressed here. It's just that I know that foundations can and must change. Some of the changes we made in 2007 were for the good, but I want to urge you in the strongest terms possible to consider the values that have prevailed throughout the foundation's history as your guide to its evolution into the future.

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Some years ago, during a PWF retreat, the facilitator went to each director and asked what his or her hopes were for service on the foundation board. When she came to me, I thought for a minute and then uttered a phrase that surprised even me for the way in which it summed up my feelings about PWF. "My hope," I said, "is that we can all share a communal joy in helping others." That is my parting wish for you, that through long-time service; deep and active involvement in your role as directors; and the new ideas you bring to the foundation of all kinds and for all places; you will experience the joy that service to PWF has so often brought to me.