NO TIME FOR COMPLACENCY:

PREPARING FOUNDATIONS FOR A MORE TURBULENT FUTURE

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Philanthropy faces an increasingly turbulent future, where the digital, social, political and economic forces of change will become less predictable. This puts a premium on the ability of each foundation to detect, anticipate and respond to early signals of threats and opportunities. In previous decades, the pace of change was often slow enough that foundations had enough time to regroup and respond to missed signals. Today, a reactive posture will no longer be sufficient.

Many in the business world are coming around to this way of thinking. We have studied how successful leaders foster greater vigilance in their organizations. The organizations that exhibit high vigilance see looming risks and opportunities sooner than others, and position themselves to act faster when the fog of uncertainty lifts. In doing so, they gain flexibility, save time and avoid crises or missed chances. Their leaders look for weak signals of threats and opportunities, take time to figure out what they mean through probing and monitoring, and then place small bets early to learn more and improve their position. Vulnerable organizations are prone to overlook or mishandle these kinds of early warning signs. By the time they begin to pay attention, they may have lost valuable degrees of freedom to maneuver and find themselves reacting to events.

In 2016, we led internal and external teams at the John S. and James L. Knight Foundation as part of a scenario-building exercise. The goal of this effort was to enable the foundation to be more vigilant and become better aligned with the changing realities of the context of its work. This foresight effort was especially resonant at the Knight Foundation, whose largesse came from the Knight Newspapers, Inc., a major newspaper company in the United States during the middle of the last century. By 2006, however, the company no longer existed, having been sold in pieces to various media entities. Knight Newspapers (and, later, Knight Ridder) was a microcosm of the larger U.S. newspaper industry, which had failed to fully comprehend – or respond to – the pace and magnitude of changes that the internet wrought. Knight Ridder's leaders and some of its major newspapers – including the Miami Herald, The Philadelphia Inquirer and the San Jose Mercury News – had studied diverse scenarios in the early 1990s, but the picture was clouded and various strategic attempts to move further online floundered (Schoemaker and Mavaddat, 2000).

Given this vivid firsthand experience with digital upheaval, we wanted to assess how the philanthropic sector approached the challenge of staying vigilant. Independent foundations are uniquely independent and flexible institutions, usually free from obligations to investors or constituents. Because place-based foundations focus on a community or region, they naturally have less freedom to change their program as external forces shape where they work. Still, they occupy a uniquely independent niche compared to other local actors. Community foundations and corporate charities[1] may be the most constrained – not only because they have a vocal and empowered constituency but also because they are more strongly influenced by market swings that could dictate the availability of resources.

To understand better how foundation leaders assessed the uncertainties surrounding their philanthropic activities, we teamed with the Council on Foundations (CoF) and the Knight Foundation. With their support, we surveyed 93 senior leaders (including many CEOs) from a wide range of foundations, including independent national foundations, community foundations and corporate charities. We asked these leaders about the level of turbulence in their funding areas, their readiness to confront turbulence, and the organizational systems they had in place to understand and detect change. We also compared the findings to global corporations and credit unions who had already completed a similar survey.

Our findings reveal several reasons for foundations to be concerned:

1. **More turbulence is ahead:** Most foundations feel that the external conditions may change in unpredictable ways for them. They especially expect technology disruptions and changing markets to impact their work.
2. **Yet foundations are surprisingly confident about their ability to adapt:** We expected increased perceived turbulence to lower confidence about future performance. Leaders tend to tread more carefully when they are less certain about the future. In this survey, foundations responded in the opposite fashion. Foundation leaders evinced high confidence in

their adaptability, their capacity to anticipate change and their open-mindedness about external forces.

3. **This confidence may be misplaced since foundations have few tools in place to weather storms:** As we discuss later, vigilance is not solely an attitude or state of mind. It is also an adherence to structures and foresight practices that force organizations to seek out change, grapple with uncertainty and prepare themselves to adapt. This includes dynamic leadership, proper incentives and agile structures. The 93 foundations that responded to this survey seem to employ few, if any, of these practices but are highly confident nonetheless.[2]

Without overstating the survey results, we believe many foundations are displaying the classic indicators of complacency. They are confident in their capabilities but may have little to show when actually benchmarked on the caliber of these capabilities against best of breed. Also, they acknowledge that external conditions – those beyond their control – may experience greater turbulence in the future. The rest of this report explores in greater depth the main findings and offers guidance to foundation leaders who want to assess and potentially bolster their organizational vigilance, resilience and relevance. The report is organized as follows:

- **Section I** describes important attributes of vigilant organizations and explains the role of vigilance in the modern environment.
- **Section II** provides an overview of how foundations responded to the survey.
- **Section III** provides comparisons to global corporations and credit unions.
- **Section IV** offers guidance to foundation leaders seeking to cultivate a more resilient organization.

I ATTRIBUTES OF VIGILANT ORGANIZATIONS

Vigilance is a quality of organizations that enables them to stay ahead of turbulent realities. Vigilance cannot be just the responsibility of the leadership team but must emerge from a set of capabilities that organizations master over time, by fostering an organizational culture of curiosity, candor and tolerance for ambiguity.

Unfortunately, vulnerability rather than vigilance is the norm in many established organizations within and beyond the world of foundations. The immediate pressures of running the day-to-day operations absorb so much of the scarce attention of the leadership team that they often lack the time and resources to look beyond immediate concerns. The result is missed signals and reactive moves. In the rest of this section, we share what we have learned through several decades of study about the defining features of vigilant organizations.

The leadership teams of vigilant organizations differ from their vulnerable counterparts in four fundamental ways:

1. They exercise **vigilant leadership** with a deep sense of curiosity, openness to diverse inputs and a projection of willingness to play the long game.
2. They adopt a **flexible and adaptive** process of **strategy making** that features outside-in and future back approaches.
3. They **invest more in foresight** activities and adopt flexible, real options approaches to help contain uncertainty.
4. There is **coordination** and **accountability** for acting on weak signals enabled by an organizational readiness to share information.

These four attributes connect in direct as well as indirect ways, as the survey items revealed. Our statistical analysis in the next section uses these attributes to explain corporations' and foundations' vigilance performance.

Vigilant leadership. The senior leadership team sets the "tone at the top" and signals an openness to sensing and acting on early signals of threats and opportunities. The most influential members of the leadership team are effective communicators who are willing and able to partner with other functions and serve as credible advisers to the CEO on key decisions. Three qualities distinguish vigilant leaders:

- They focus externally and are open to diverse perspectives.

- They apply strategic foresight and probe for second-order effects.
- They encourage others to explore widely by creating a culture of discovery.[3]

Vigilant leadership teams create the "psychologically safe" space required for employees at all levels to share perspectives about relevant issues outside of their immediate domain. Employees deep in the organization must believe they will receive an open and fair hearing when raising concerns or suggesting ideas.

Some foundation leaders exemplify these qualities, such as George E. Vincent of the Rockefeller Foundation. He realized from his foundation's campaign to end hookworm that a new breed of health practitioners was needed to improve public health (Fosdick, 1952). When the foundation endowed the first public health school at Johns Hopkins in 1918, he called it the "West Point of Public Health." A current example of an influential figure in philanthropy is Bill Gates, who similarly pledged most of his wealth to fight illness and poverty. Gates regularly shares his views about what needs to address and listens to critiques of the foundation's work (McGoey, 2015). His open-minded approach cultivates transparency about how the foundation is thinking, including forward-looking perspectives about reducing global suffering and inequality.

Other foundations have also been willing to experiment by using challenges and contests to take the blinders off and be open to what they don't know. For example, the Knight Foundation has for 10 years supported the Knight News Challenge – an open contest that ultimately awarded more than $50 million to diverse efforts to innovate in producing, distributing and disseminating news. One clear benefit was to grow a new network of technologists who cared about journalism problems. Another benefit was that the contest format introduced the journalism world to a new cast of players focused on technology and technology-enabled disruption.

The MacArthur Foundation recently announced the winner of 100&Change, a $100 million grant opportunity open to any transformative effort. The foundation has posted a searchable database of all the entries that didn't win to enable others to scan for promising opportunities. MacArthur also formed a series of research networks earlier in the decade to bring diverse voices together to canvass the contours of emerging issues such as digital learning and youth participation in politics. The Rockefeller Foundation has for several years funded the Searchlight Network, a group of global foresight teams. It also had an internal scenarios team to assist with foresight and strategic planning.

Adaptive strategy making. Vigilant organizations regularly revisit their strategic priorities, choices and direction and are better prepared to capitalize on rapid-fire strategic challenges. Their advantage comes from an outside-in approach that keeps them in tune with stake-holders, partners and rivals and a willingness to embrace uncertainty. Vigilant leaders are able to distinguish clearly between situations that can be reliably predicted – such as demographic trends, business cycles, regulatory changes or technological trends – and external dynamics that neither their organizations nor outside experts fully understand. The latter would include the financial crisis that erupted in 2008, the political upheavals in the Middle East, the development of cloud computing and the promise of machine learning.

In an uncertain and ambiguous world, the focus should be on asking better questions, seeking new insights, accelerating learning and creating responsive organizations. There are different ways to do this. Some foundations have a presence in other countries that can serve as listening posts for emergent issues. The Ford Foundation, for example, has offices in each of the continents where it works to facilitate grant-making closer to the ground. The Knight Foundation has local program leaders in eight of the communities where it works. Whereas community foundations need to be sensitive to changes in their local environment, large independent foundations may need to monitor more complex national dynamics as well as geopolitical ones. For example, there is much concern that free-market economies are not delivering enough for those in the middle and bottom of society.

More than half of young people in America, and far more in Europe, favor socialism over capitalism, and this deep shift in sentiments may cause serious upheavals in years to come. Apart from concerns about jobs and access to quality health care, plus deep frustrations with polit-

ical stalemates in Washington, D.C., there is growing resentment among younger people toward the current institutions (Giridharadas, 2018). Intergenerational tensions about climate change, exacerbated by underfunding of social services in pensions and health care, contain the seeds of potential political change. This should be disconcerting to all stakeholders currently viewed as part of the status quo, because they may have to seriously rethink their mission, strategies, moral underpinnings and partnership approaches.

Many observers are beginning to sound the alarm for an urgent need to reshape capitalism and the global order to counter the growing rise of autocratic nations. Unless liberal democracies continue to out-innovate and outperform authoritarian regimes, economic and political freedom may be at risk at home and abroad. A related concern is that new digital technologies can increasingly be harnessed to favor tyranny, from fake news and alternative facts to post-truth populism and cyber control of information. As Tom Friedman (2019) noted in his New York Times column, digital technologies are "taking us into powers that we never experienced before and that governments never had to regulate before." He is referring to "deep learning, deep insight, deep surveillance, deep facial recognition, deep voice recognition, deep automation and deep artificial minds." These technologies will offer "unprecedented promise and unprecedented peril as everything is going deeper."

Investments in foresight. Understanding the deeper meaning of these emerging issues will require systematic investments in foresight capabilities that are not one-and-done quick fixes. Instead, leaders will need to incorporate various management systems that foster vigilance. Below are some of the foresight methods and tools that could be used, depending on how much the external environment is changing:

- A disciplined search for opportunities to innovate. A directed search will surface better-quality ideas than a scatter-shot approach that sweeps up many possibilities.
- A portfolio of continuous, small experiments that expands the repertoire of known patterns of response.
- A centralized foresight unit or team, coordinating closely with the strategic planning group, marketing and other forward-looking functions.
- Scouting teams that visit innovation hubs (such as Silicon Valley, etc.) or new growing market segments (such as young activists) to gain fresh insights firsthand.
- Strategic dashboards to monitor external scenarios that may have been developed, test the validity of core assumptions or track the progress of key projects.
- Formulation of "red teams" to collect data and present arguments in a comprehensive as well as timely fashion in case the current strategy is running into major hurdles or seriously derails and need revision.

Not all foundations may have sufficient flexibility, size or scope to implement all of the above and much depends on how open their competitive environment is. Community foundations face particular constraints because their largesse derives principally from local donor advisers. These benefactors can recommend how funds are to be used, and their views are also implicitly relevant to foundation's future viability due to future funding opportunities. Furthermore, community foundations generally see themselves as part of the locality in which they are based. This makes them intrinsically more responsive to near-term community interests than an independent foundation. The latter can have a mission or remit that is quite divorced from the particularities of any given community.

Independent foundations are also more buffeted by current forces of change. New models to manage individual wealth are emerging that may compete directly with the community foundation model, such as Fidelity Charitable, which is among the largest holder of donor-advised funds in the U.S. There are also emerging technologies that intervene between individual donors and charities, such as GoFundMe, Kickstarter and Give Well. Such intermediary foundations, however, face the ever-present implicit risk of not being deemed as relevant to changing community needs.

There are many examples of smaller or more constrained foundations that are adapting to and leading through turbulence. In Philadelphia, the community foundation

saw the opportunity to "go big" in its commitment to civic engagement by partnering with Philadelphia Media Network (which includes the Philadelphia Inquirer) to make the news organization a (for-profit) public benefit corporation owned by a non-profit institute dedicated to sustainable models for local journalism. This required significant organizational agility to co-create a new organizational structure. When a national study found that Charlotte ranked 50th out of 50 major metro areas in enabling economic mobility, the Foundation for the Carolinas convened a task force to raise awareness about the issue and developed over 100 recommendations to improve mobility for all children. Following the report's publication in 2017, the private, public, faith and nonprofit sectors have all developed tangible steps to implement the findings. In Detroit, the Community Foundation for Southeast Michigan was at the heart of the city's revival – including a key role in brokering the "Grand Bargain." This brought several local and national foundations together and enabled Detroit to emerge from bankruptcy without mortgaging its world-class collection at the Detroit Institute of the Arts.

Each of these foundations faced far more significant hard (mission and purpose) and soft (political or constituent-based) constraints than a typical independent endowment foundation. Yet, each was ahead of turbulent local conditions by using its unique position in the community to convene, facilitate and lead on emerging issues.

Coordination and accountability. This fourth attribute of vigilant organizations enables the other three to flourish by clearly setting organizational parameters for success. When absent, the organization will encounter obstacles to sharing information and acting quickly. One compelling message from our research is that vulnerable organizations are more likely to suffer the ills of bureaucracy. The hierarchical structures and standardized rules and procedures traditionally needed to coordinate dispersed activities come at steep prices, such as:

- Limited lateral sharing of information across functions and geographies, so it is hard to get a full picture of an ambiguous trend or an anomalous event.
- Bureaucracies are slow moving because too many people have to be involved in decision-making.
- Too few incentives for taking timely action on ambiguous signals. Bureaucrats are instinctively risk averse, and rules are designed to avoid mistakes.
- Insufficient accountability for taking action on weak signals; it is nobody's job but instead should be everyone's job.

How do vigilant organizations achieve the coordination and accountability needed to act faster? Whereas vulnerable organizations are built on the principle of decomposition of activities and functions, the agile, vigilant organization uses some variant of an "adhocracy" design, where activities are combined and action matters more than a person's position. In an adhocracy, probing the periphery for ideas, trying things out and continually experimenting are more important than following the rules and avoiding responsibility.

The organizational processes that vigilant organizations use encourage agility. While some may be purpose-built designs to suit the needs of the moment, there are some common features. First, there is someone on the leadership team with responsibility for assessing organizational anxiety or paranoia, assembling the weak signals and then interpreting their significance. This individual may be located in centers of excellence, responsible for a broad domain of interest. Second, vigilance is a team sport, so groups may be formed into geographic units or participate in a core process such as grant reviewing or be given the mandate to explore the relevance of blockchain technologies. Third, there are procedures to identify and share compelling insights through staff communications and briefings or a common information system.

II OVERVIEW OF FINDINGS

Among this study's most salient findings are that the participating foundations were more confident overall of their vigilance capability than the benchmark corporations we have studied. This may reflect that foundations are often more insulated from outside forces of turbulence than are corporations, given their competitive pressures and broad scope of operations. However, our findings suggest that this broad sense of self-confidence may be illusory and that larger foundations in particular

may need to enhance their vigilance.

Foundations are highly confident of their adaptability. Most foundations surveyed deemed themselves well adapted to their present level of turbulence and challenge. The survey scores suggest that many view themselves as operating in stable environments where key stakeholders' and partners' strategies, actions and intentions are fairly predictable. They also report moderate to low sensitivity to external social and technological changes. Respondents generally scored their foundations favorably on the following indicators of organizational adaptability:

- Openness to reports from the periphery (84% scored very to somewhat open).
- Willingness of front lines to forward weak signals to senior management (87% scored very to somewhat eager).
- Leveraging external networks to see sooner (82% scored very to somewhat widely used).

Most respondents (85%) judged their foundations as very or quite agile when plans required midway adjustments. Similarly, high scores were reported about their organizations having the necessary ingredients for vigilance and agility. Specifically, most foundations say they are willing to challenge basic assumptions about views of the future or the current strategy; view failures as a learning opportunity; and embrace a flexible, collaborative, issues-driven strategic planning process. Their self-assessments also underscore the perceived presence of a key prerequisite of vigilance, namely being engaged in a diverse set of outside social, commercial, civic and professional network.

Turbulence is likely to increase – few foundations report adequate tools to address it. When asked to look ahead, the leaders of most foundations anticipated greater turbulence. Almost 61% of respondents said the fields in which their foundations operate have been transformed or reshaped during the past five years. Also, a slightly smaller proportion felt they were actually fairly sensitive to social and technological changes and to macroeconomic forces, including prices.

So far, most foundations have been able to take their surrounding turbulence in stride. However, large foundations in particular see a high likelihood of major disruptions in their funding domains over the next five years. This raises a key issue about how well-equipped these foundations are to anticipate, comprehend and cope with future disruptions.

More generally, the survey data suggest that foundations lack some of the key elements of a vigilance capability, especially when greater turbulence lies ahead:

- Most report their systems for extracting information to be old and difficult to use.
- Few have instituted incentives to reward employees who adopt a wider vision or actively explore weak signals.
- Less than a quarter of respondents use tools such as scenario planning, real options analysis or predictive analytics when developing their strategies.
- Less than a majority devote significant time and resources to scanning for weak signals.

These general tendencies are noteworthy and possibly worrisome depending on future conditions. These findings should be especially concerning for foundations because they belie the high levels of self-confidence. Foundations say they are adaptable, open-minded and attuned to the potential for changing conditions and circumstances. Yet, they also report they have implemented few, if any, of the known tools to develop greater vigilance.

Larger foundations expect more turbulence in their future. There were notable differences between large foundations (with mean assets of $3.2 billion) and small foundations (mean assets of $41 million). Overall, the large foundations were much less restricted in their grant-making based on their donor designation, donor intentions, donor advisers or legal/regulatory structure. With fewer restrictions comes greater flexibility and discretion and thus also a significantly greater need for vigilance.

As a consequence of the differences in scale, scope and assets, the large foundations:

- Have experienced more unpredictable changes in the past.
- Expect faster technological change in the future.

- Are more susceptible to macroeconomic forces.
- Foresee greater potential for major disruptions in their funding domains.

III COMPARING FOUNDATIONS TO BENCHMARKS

In addition to evaluating foundations in comparison to each other, we also compared them to two benchmark groups: corporations operating in competitive markets with high levels of turbulence and U.S.-based credit unions operating in a more stable, regulated market. The main question was whether foundations behaved in roughly the same way at these other types of enterprises. A high degree of similarity would suggest that foundations may adopt the same vigilance strategies that other successful enterprises use. If not, more caution would be needed in simply adopting the best practices of these external benchmarks blindly.

Using a series of regression analyses, we found that a key distinction among foundations is in their asset size.[4] Large foundations are similar to our benchmark global corporations. The analysis clearly shows that leadership matters greatly when the organization is less restricted in its field of operation. One reason is the correspondingly greater need to actively prospect for emerging areas to support, while being alert to threats from both within and without. Likewise, the most vigilant foundation leaders also sought diversity among the inputs they sought, and the networks they were active in cultivating. Large foundations were also more likely to have a flexible approach to strategy making that embraced uncertainty and to conduct trial-and-error experiments to expand their understanding. There were some key differences as well, such as larger firms assessing their ability to see around corners as lower than foundations and likewise regarding their ability to act more quickly. This may reflect that larger corporations are operating in tougher environments, with more issues to scan than smaller firms, or also perhaps that they grade themselves harder or more honestly.

IV BECOMING MORE VIGILANT

Many organizations have the desire and the potential to become more vigilant but are unclear about how to make it happen. Should they adopt a freewheeling opportunistic approach or a tightly disciplined process? What features of the most successful change initiatives could apply to them? Where and how should the leadership team start the initiative? In this section, we describe some common themes of effective change programs using a four-step framework. Successful change initiatives invariably start with a demonstration of leadership commitment, followed by an iterative sequence of taking a different approach to strategy-making, investment in foresight and a better aligning of the organization.

Step 1: Demonstrate leadership commitment. Leaders can demonstrate their commitment to building vigilance in the following ways.

- ***Devote more time to thinking about the future.*** Short-termism can be the enemy of vigilance about longer-term undercurrents – akin to those passive frogs that slowly boiled to death as the water temperature gradually rose. The CEO Genome Project findings (Botelho et al., 2017) reinforced this key point. CEOs who excel at adapting to turbulent environments spend significantly more time – as much as 50% of their time – thinking about the long term to spot subtle trends. Less successful chief executives, by contrast, devoted an average of 30% of their time to long-term thinking.
- ***Encourage diversity.*** Leaders can foster vigilance by hiring for it externally as well as by promoting "mavericks" or others from within who are naturally more vigilant and externally focused.[5] When hiring new staff, leaders can pose specific questions to assess a person's ability to scan without taking his or her eye off the main focus. Vigilant leaders should also educate employees in critical and innovative thinking skills, scenario planning and weak signal detection.
- ***Cast a wider net.*** Vigilant leaders see sooner by acting like explorers. They seek to participate in diverse and unconventional knowledge networks to expand their world view. Engaging in diverse external webs, where weak signals may be serendipitous, is difficult

for operationally focused managers, who are more comfortable in clearly defined and long-established industry meetings. Connecting with and building a network of contacts beyond these familiar domains requires curiosity, a tolerance for ambiguity, some courage and a willingness to take some bets that may not pay off.

- ***Identify vulnerabilities and commit resources.*** The strongest signal of leadership commitment is putting serious resources into surveillance, scanning and other activities aimed at improving vigilance. This shifts the narrative from "operational concerns" and "current performance" to looking for what may be coming over the horizon. Where to best allocate leadership's scarce attention resources should be guided by the leadership team's assessment of major vulnerabilities. Leadership teams can use the Vigilance Survey in Appendix A to assess their organization's scores on a spectrum from vigilant to vulnerable and then decide where there is a need for improvement. It can be especially revealing if the survey is first individually completed by each member of a leadership team, since that will identify areas of agreement as well as differences in the diagnosis.
- ***Engage the board of directors.*** Too many boards simply rubber-stamp the proposed strategy – their meeting time is mostly spent on progress reports, compliance policies and operating issues. Yet, bringing them early into the challenges of seeing sooner amidst turbulence can bring many benefits. Given their broad experience base, boards can tap into a broader network of information sources about trends, weak signals and vigilance practices in best-practice organizations. What many directors want is some breathing space in the board meeting to help position the organization for an uncertain future. Once engaged in being vigilant, such directors become "scouts," who are actively listening.

Step 2: Invest in foresight. Two reliable methods for investing in foresight are to mount a disciplined search for threats and opportunities and engage with a network or ecosystem of partners to tap new insights and resources.

Mount a disciplined search. Few organizations do this better than Intuit. When its leadership in 2010 first saw the possibilities of adapting personal-finance solutions to mobile devices – such as doing taxes on a phone – there was resistance from managers who were sure that there was no money to be made with mobile. So, Intuit found companies that were making solid profits from mobile applications and assigned some of these managers to interview their executives. The insights from these contrarian interviews were shared at an off-site.

Engage partners in the ecosystem. MasterCard has adopted an "adaptive ecosystem strategy" to engage multiple partners to create new digital solutions. This approach recognizes that the best opportunities often lie at the intersections where market spaces and industries overlap. Thus, it worked with Maytag to develop Clothespin, a wireless laundry equipment pay-per-use solution that connects washers and dryers to smartphones and laundry equipment service providers. These uncommon partners drew on available technologies – smartphones, online credit card payment systems and devices connected through wireless cloud communications – to devise a novel solution to do laundry away from home far more efficiently.

Step 3: Change how strategy is developed. For many companies, the process of making strategic choices contributes to their vulnerability. Too few people outside of the leadership team participate in the process, and the cumbersome steps are a formulaic precursor to the real action, which is usually the annual budget cycle. The result is that the firm may suffer from an inside-out and short-term bias. To become more vigilant, such organizations need to widen their scope, lengthen the time horizon and expand the number of people who are involved beyond the leadership team.

Vigilant organizations start their strategy dialogue with what is happening with customers, competitors and adjacent technologies. MasterCard embraced this outside-in approach as it focused its strategic thinking on how to compete with cash. It found that many people preferred cash over credit cards because of the personal control. Others were forced by merchants to use cash, and many people in developing economies simply didn't have bank accounts. But MasterCard also found that even the most reluctant adopters of credit cards preferred

a cashless solution in such areas as transportation and meals, because handling cash was rather cumbersome in these settings.

A distinctive feature of vigilant strategy processes is their emphasis on surfacing anomalies and addressing them while the strategy is being formed. Whereas vulnerable organizations ignore information that doesn't fit or convince themselves that it isn't important, vigilant organizations *seek out* anomalies as early warning signals. Intuit, whose survival skills we touched on already, calls this "savoring the surprise." Once its leadership team saw that some users of Intuit's online money management service Mint weren't behaving like the young-professional target market was supposed to behave, the team dug deeper and found that these users had adopted Mint to manage their self-employment income and spending. Many, it turned out, were Uber or Lyft drivers, operating in the expanding gig economy. Embracing this learning, Intuit designed a variation of Quick Books especially for self-employed workers – and it became their fastest-growing product.

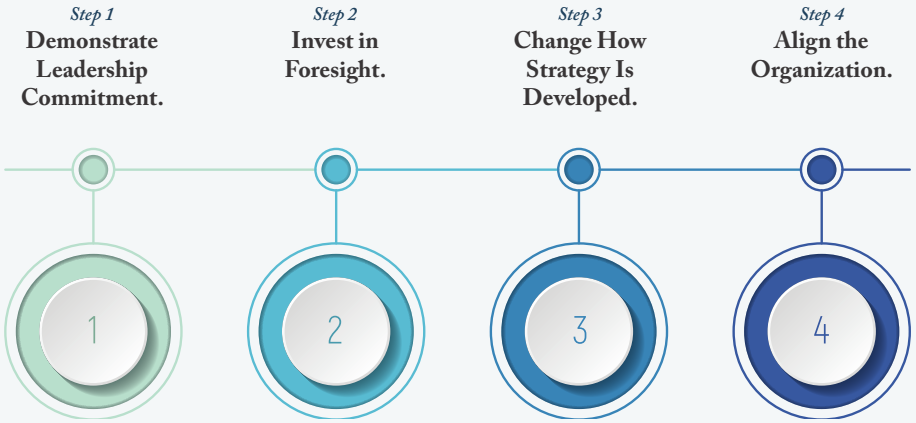
Generate guiding questions. We recommend an issues-based strategy process that is focused on resolving the big questions whose answers will shape future results (after taking into account the firm's aspirations and goals). One of the best sources of these pivotal issues is to use broad guiding questions, which should be about systematically learning from the past, interrogating the present and anticipating the future. This is an antidote to the kind of close-in, precise and targeted questions typically used to evaluate and improve current operations. The latter do matter but far less in strategy workshops where the focus needs to be broader, forward looking and imaginative.

Step 4: Align the organization. Earlier, we showed how coordination and accountability enable vigilant organizations to flourish – or wither, if the organization is stuck in a rigid posture. Achieving alignment is an affirmation of the previous stages that puts the organizational pieces in place.

One recurring theme of all alignment initiatives is the use of small, self-governing teams, perhaps consisting of only three people. At Intuit, new ideas are initially developed by small discovery teams that don't report up the chain of command but instead have a direct line to the divisional general manager. Such small teams are especially suited to enhancing vigilance. Recently, 70 Intuit senior managers were grouped into small teams and told to investigate eight major trends that had surfaced either in customer interactions or diverse technology forums (such as how kids under 10 years of age use technology, conversational user interfaces and blockchains).

More fundamental organizational transformations to heighten vigilance can include structural separation, which places exploration and exploitation activities in different units, or behavioral integration that puts these potentially conflicting activities together in a single unit by designing a supportive team context.

How to Become More Vigilant



AN AGENDA FOR ACTION BY FOUNDATION LEADERS

The preceding section laid out a leadership approach for improving organizational vigilance. How urgently this is needed and in what areas can be partly assessed using our survey. What executives should do in their own foundation can only be fully answered with deeper background information about the organization, its strategy and the competitive environment. Short of engaging in an internal consulting project, there are several initiatives that most leaders can fruitfully start to be followed by more tailored assessments later. Based on the survey results and our past experiences, here is a flexible action agenda to consider.[6]

Poll all leaders. Ask each member of your executive team (and board perhaps) to take the vigilance survey privately; then compare and contrast the results. When all are done, collect the scores – either anonymously via Survey Monkey or with names disclosed – and zero in on low scores as well as scores showing high variability. It is important to understand that differences of views can be due to varying interpretations of the questions, implicit assumptions made or diverse perspectives about what your organization is good at or not. Rather than get into heated debates, try to share examples where either seeing sooner or acting faster was deficient versus excellent. Treat these as learning vignettes to see how best practices can be more widely shared within your own foundation as well to identify areas of systemic weakness. Populating the following matrix with examples will help your foundation to learn collectively from some pasthits and misses.

		Type of Issues	
		THREAT	*OPPORTUNITY*
Origin of Issue	*EXTERNAL*	Adverse legislation Competitor move	New technology Alliance partner
	INTERNAL	Poor cyber security Fraud or bribery	Emerging Talent Innovation tournament

Avoid complacency. Considering the high scores most foundations gave themselves, compared to the corporations we sampled, many may be vulnerable to setbacks and surprises. Most organizations reported low scores when asked about challenges and turbulence that may lie ahead. With tougher times expected around the corner, the focus should be less on past strengths and more on building resilient capabilities to weather storms from economic malaise, further digital disruptions and new business models. In short, make sure you are not in denial. The survey shows a high degree of confidence among foundation leaders in their vigilance capabilities, yet 52% of them also see significant potential for major disruptions in the next five years. This forward look is in sharp contrast to the stability that was reported in the past. To challenge current thinking and a culture that is perhaps overly self-satisfied, consider using so-called red teams. Whereas blue teams are tasked with executing the current strategy and plans, a red team plays the role of the loyal opposition. Such a team should be comprised of knowledgeable insiders who are highly respected inside the organization and whose task it is to challenge the executive group's and board's current thinking.

Focus outwardly. Get out of the building to see what is going on and allow yourself to be exposed to diverse points of view. Spend leadership meeting time reporting on what each person learned in these exploratory excursions, especially anomalies, surprises and growing undercurrents. The aim is to look beyond your core activities. To overcome blind spots and transcend narrow information channels, tap your external organizational networks more fully. Many companies belong to industry trade associations, ranging from narrow industry verticals to wide agglomerations, such as the Business Round Table, the Conference Board and the Association of National Advertisers. Members of these networks exchange information, collect different perceptions of shared interests and develop beneficial business relationships. However, since these associations function as affinity groups, they often tend to reinforce existing mental models – in some cases, becoming "echo chambers," where like-minded managers simply confirm their own biases and convictions. Leaders try to reach beyond these common networks.

Explore weak signals. When Deven Sharma, as president of Standard & Poor's, testified before Congress in fall 2008 about the financial crash, he said: "Virtually no one – homeowners, financial institutions, rating agencies,

regulators, or investors – anticipated what is occurring." Virtually no one, that is, if you ignore prominent economists such as Paul Krugman, Dean Baker and Robert Shiller and don't count savvy investors like Steve Eisman, Michael Burry and John Paulson. To paraphrase Nobel Laureate Krugman, he and his fellow "nobodies" didn't view the financial crisis as a "black swan;" they saw it as the elephant in the room – and elephants don't tiptoe and sneak up on you. Even though annual housing prices had not declined in nominal terms in modern memory, mortgages may have become much too easy to obtain. Hedge fund manager Eisman and a few colleagues dove into the data, collected input from multiple sources and spotted inconsistencies in the performance of the housing market. For several years, they resisted the temptation to do what everybody else was doing: going for the quick buck. Instead, they shorted the subprime mortgage market, which eventually yielded around $1.5 billion for their hedge fund FrontPoint Partners.

Use scenario planning. The aim in scenario planning is to prevail no matter what happens, which requires being vigilant about external change and building internal capabilities that allow your foundation to remain agile and resilient. Scenario planning, as traditionally used, provides a useful stress test for your current strategy. By developing different views of how the external environment may change, foundations can stress test their program and assess whether they have sufficient flexibility to handle change or turbulence (Thompson and MacMillan, 2013). Scenarios can also be used to scan wider and detect signals that foreshadow change or disruption. Dashboards can pick up early indicators about how emerging technologies or social trends may disrupt your current activities or why new regulations may alter the environment.

A key challenge in scenario planning is to understand not just the deeper trends at work but the key uncertainties whose outcomes could materially affect your planning field in years ahead. For the Lego company in Denmark, these uncertainties included the diffusion rate of online media and video gaming, the speed to market of manufacturers who would jump on Lego's patent expirations and the sustainability of Wall Street's enthusiasm for new dotcoms at the time. The key is to reflect a range of future possibilities and to make sure that you develop several scenarios that go well beyond business as usual. While scenario-based analysis does not eliminate uncertainty about changing industry or consumer dynamics, it can help you make sense of new information more quickly and put robust strategies in place.

Leverage social networks. To combat insularity and myopia, strategic leaders need to plug into important spheres that expose them to people with different worldviews, knowledge and experience. They may look into joining small groups of noncompeting companies, such as those inspired by former Medtronic CEO Bill George, called True North Groups. By sharing failures and misses, executives turn their blind spots into building blocks for sharper anticipation and more strategic leadership. Reflect about how well you create and mine your own networks: What purpose does each one serve for you? Do they corroborate or confront your beliefs? How can you push yourself further out on the periphery?

To scan wider, you may want to start tracking cutting-edge blogs, tap into the "wisdom of the crowd," join LinkedIn interest groups outside of your field and glean deeper insights from data collected in your business or social networks. Contrarians such as Elon Musk delight in exploring ideas outside of the mainstream. Always wary of status-quo views, they prefer honest assessments that reflect how much – or how little – is truly known about the issue at hand, and this openness allows them to better anticipate what lurks around the corner. To become a vigilant leader, you must readily accept that surprise and change will be your constant companions, and this highlights an intriguing paradox highlighted by Nate Silver: To see sooner and scan wider, you must proceed with equal parts passion and humility.

The above are just some suggested activities that vigilant leaders can launch to change the mindsets, orientations and culture in their own foundation. The above list is by no means complete, and effective leaders will create their own customized approaches. For example, you could explore collaborations with other foundations that are strong in areas where you are weak and vice versa. Assuming you are not in direct competition, it may make sense to pool your vigilance resources and serve as each other's strategic radar. Cooperation can take place informally, through weekly lunches, or more formally through

CoF meetings.

Engage your board more deeply in vigilance activities and try to tap into its wider external networks. You can also suggest increasing the amount of time the board spends on vigilance issues versus operating agenda items. Relatedly, assess the board's makeup to see whether more diverse perspectives are perhaps needed. Being vigilant requires an inquisitive culture in which every person is valued as a potential touch point with the outside world. The board members personal and professional networks may reach far and wide and, as such, should be viewed as valuable sensors in your own strategic radar systems. After all, organizational vigilance is very much a team sport.

APPENDIX A
How Vigilant Is Your Foundation?

Thank you for taking this Wharton School Survey designed to assess your foundation's capacity to properly sense and act on weak signals of threats and opportunities, either inside or outside your organization. Our promise: All responses are strictly confidential and will only be reported in aggregate form.

A. How Well Does Your Foundation Sense and Respond to Weak Signals?

1. In the past three years, how often have you been surprised by an outside **threat to your grantees or strategy** (e.g., technologies, regulations, business models, etc.)?	Frequently (at least twice a year)	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Seldom (less than twice in the past three years)
2. In the past three years, how often have you been surprised by a **threat from inside** your foundation (e.g., fraud, harassment, malfeasance, incompetence or other bad behavior)?	Frequently (at least twice a year)	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Seldom (less than twice in the past three years)
3. How good are you at spotting **opportunities outside** your foundation (e.g., new fields, partners, areas of work, technologies, social trends)?	We are usually late and often have to catch up.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	We often see opportunities well ahead of our key rivals.
4. How good are you at spotting opportunities **inside your foundation** (e.g., emerging talent, innovative ideas, efficiency improvements, better incentive systems, IT applications)?	We often overlook good ideas right under our noses.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	We scan for and develop new ideas from inside vigorously.
5. How quickly have you detected **fundamental shifts** in the fields in which you work (e.g., changes in social, political and economic conditions; new players; disruptive technology; new regulation; or geopolitical shifts)?	Laggards: We are always slow or late in seeing shifts.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Leaders: We effectively anticipated major shifts.
6. How accurately have you forecasted relevant developments over the past five years?	Very poor: The actual results differ greatly from forecasts.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Very good: Actuals have deviated little from forecasts.
7. How extensively does your organization leverage external networks and partnerships (such as government, private sector, other funders, grantees) to see external changes sooner than others do?	Seldomly used	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Widely used
8. How open is your organization to listening to reports from scouts or others on the periphery of the fields in which you work (i.e., beyond your core grant-making areas)?	Closed: Our culture discourages listening.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Open: Our culture greatly encourages such listening.
9. How willing are your front-line employees to forward signals of opportunity or concern **upward** to senior management?	Reluctantly: We lack channels, incentives or sufficient trust to do this.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Eagerly: We have enough trust, recognition and incentives for doing so.

10. How readily is relevant information about the periphery shared sideways; either across functions or business units laterally?	Poor: People hoard or ignore relevant information.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Excellent: People share information regularly across silos or boundaries.
11. How well does your organization anticipate external changes in the fields in which you work compared to other foundations?	Very poorly: We seldom see significant market changes before they do.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Excellently: We often see important changes well before others do.

B. The Ability of Your Foundation to Respond to Weak Signals

1. How much time and resources does the leadership team devote to scanning for weak signals of threats and opportunities?	Low priority: Few people actively watch for or examine weak signals.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	High priority: Many managers actively scan the periphery and explore.
2. How willing are senior managers to challenge basic assumptions about your current strategy or views about the future?	Closed: Leaders are mostly defensive of assumptions or even hostile toward change.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Open: Leaders openly encourage challenging assumptions and traditions.
3. How far does your organization's strategic planning cycle look into the future?	Emphasis on short term (two years or fewer).	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Emphasis on long term (five years or more).
4. To what extent does your organization use such tools as scenario planning, real options, and predictive analytics when developing strategies?	Limited use: We mostly use landscape analyses, logic models/theories of change and critical incident analyses.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Extensive use: We stress-test our strategies against external uncertainties and often stage our investments.
5. How dynamic and forward looking is your strategic planning process?	Very little: It is rigid, calendar driven and political to get access to resources.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Very much: It is flexible, collaborative, issues driven and managed in real time.
6. How agile is the organization when you need to adjust plans midway?	Very little: Once plans are set, it is difficult to amend.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Very much: It is fluid, responsive to threats and opportunities, and agile.
7. Do your organization, grantees, or close partners utilize advanced technologies for posing and analyzing queries to large databases, from data mining to artificial intelligence (AI) such as IBM's Watson system?	Archaic: Systems are old and difficult to use; no AI.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	State-of the-art: Predictive analytic models and machine learning incorporating AI.
8. Is there much accountability in your organization for taking timely action when confronted with ambiguous signals of threats and opportunities?	No one is clearly responsible.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Responsibility is clearly assigned to a project team or leadership team.

9. Are there tailored incentives in your organization to reward managers who adopt a wider vision and/or who actively explore, share and interpret weak signals?	No: There are no special incentives in place for acting on weak signals.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Yes: Top management provides direct rewards for scanning and fast follow-up.
10. To what extent does your leadership team actively build and participate in external networks?	Limited to narrow and routine sector settings (like conferences or events).	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Wide engagement in diverse outside social, commercial, civic and professional networks.
11. What is your organization's prevailing attitude toward mistakes or innovation setbacks?	Failure is seen as an error.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Failure is seen as a learning opportunity.

C. What Is Your External Environment?

1. What has been the nature of change in the major fields where you work over the past five years?	Slow and predictable	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Fast and unpredictable
2. What is the speed and direction of technological change in the fields in which you work?	Slow and predictable	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Fast and unpredictable
3. How predictable are the strategies, actions and intentions of key stakeholders and partners in the fields in which you work?	Very predictable	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Highly unpredictable
4. How susceptible are your organization and your funding domains to macroeconomic forces?	Low sensitivity to price changes, currencies, business cycles, tariffs, etc.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	High sensitivity to prices, currencies, business cycles, tariffs or political changes.
5. How sensitive is your organization and business to social and technological changes?	Low: mostly gradual change from the past.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	High: strong chance of major disruptions and changes in business models.
6. How much have the fields in which you work been transformed or reshaped during the past five years?	Very little: It looks much like it did five years ago.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	Very different: There are many new players and business models.
7. What is the potential for major disruptions in your funding domains over next five years?	Low: Few surprises are expected – mostly things we can handle.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5	☐ 6	☐ 7	High: Several significant shocks are expected.

D. Classification Questions

1. Is your foundation? (Check One) ☐ Independent ☐ Family ☐ Corporate ☐ Community

2. What are the assets: $_____?
   (millions of dollars)

3. How many employees: _____?
   (number of FTE employees)

4. What is your foundation's geographic area of emphasis? ☐ Community ☐ Regional ☐ National ☐ International

5. How is your foundation organized? ☐ Operating ☐ Non-Operating ☐ Hybrid

6. How restricted is your grant-making by donor designations, donor intentions, donor advisers or legal/regulatory restructure?
   Very Restricted ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 Not at All Restricted

7. Your position: I am the: ☐ I am the CEO/President ☐ I report to the CEO ☐ My boss reports to the CEO ☐ I am lower level

8. How long have you been with your foundation?
   _____Years

9. What is your highest educational degree? ☐ Bachelors ☐ Masters ☐ Doctorate ☐ Other

10. What is your main area of education: ☐ Arts/Humanities ☐ Science ☐ Professional ☐ Other

APPENDIX B

ABOUT OUR RESEARCH

Our empirical study of foundations' vigilance progressed through four stages: survey design; collection of data from a population of companies; estimation of the explanatory model; and cross validation with two further populations, credit unions and corporations.

SURVEY DESIGN

We started with the questions used in our 2006 survey (which can be found in our "Peripheral Vision" book) and modified or deleted several. We also added further survey items based on specific hypotheses about variables likely to discriminate between vigilant and vulnerable organizations. These hypotheses were based on our consulting experiences, additional articles we published since 2016, as well as the relevant management and strategy literatures. The survey was pretested extensively with an executive audience, and the final version is shown in Appendix A.

Our original vigilance survey had been designed for corporate leaders. We started with this and then adapted it to the foundation environment by changing certain phrasings as well by customizing the classification questions. This survey was then pretested with a sample of foundation executives and administered as an online survey using the Qualtrics platform. On average, the survey took between 10 and 15 minutes to complete. To encourage a high rate of participation, the letter of invitation was sent by the heads of CoF and the Knight Foundation. To further motivate respondents, they were promised a tailored report showing how their organization compared to the rest of the sector.

POPULATION PROFILE

The CoF invited 779 executives to complete our survey, each representing different foundations. Of these, 583 were current members of the CoF, and 196 were either former members or potential future members. Each person received an invitation via e-mail from the CoF president and the CEO of the Knight Foundation, which funded part of this study. The population profile of the 779 foundations invited this way is as follows:

- 274 were from community foundations.
- 114 were from corporate foundations.
- 155 were from family foundations.
- 139 were from independent foundations.
- 17 were from non-U.S. foundations.
- 80 were from public foundations.

Note that CoF makes a distinction between family, independent and public foundations for internal programming reasons, but these are all subcategories of private foundations. In this report, we mainly distinguish between private, corporate and community foundations. The population invited to respond broke down as follows in terms of job titles:

- 552 had president, CEO or executive director in their titles.
- 6 had the title managing director.
- 1 had the title national director.
- 7 had the title of chairman.
- 11 had the title of trustee.
- 12 had the title of vice president.

In terms of size, the mean number of employees per foundation was 31, with a very wide spread (the standard deviation was 235). The population likewise differed greatly in terms of asset sizes, which they report annually on Form 990 to the U.S. government. The mean asset size was $327 million, with a standard deviation of $1.6 billion; the median asset size was $19 million, indicating that many foundations – such as private and community ones – have generally modest endowments in contrast to the many billions found in independent private foundations or corporate ones.

SAMPLE PROFILE

The initial survey invitation mailing elicited 58 complete responses, and a follow-up reminder produced another 35 surveys for a total of 93 completed surveys. This translates into a survey response rate of 93/779 = 12%, which is within an acceptable range of field research. The survey, conducted in March 2018, contained more detailed questions about the respondents and their founda-

tions, as follows:

- There were 56 community foundations, seven corporate, nine family and 21 independent.
- The geographic areas of emphasis were 45 international, 12 national and 35 regional.
- The foundations were organized as operating (33), nonoperating (42) and hybrid (15).
- There was considerable variance in how restricted the foundations were in grant-making: on a seven-point scale, 37 were very restricted (score of 1, 2 or 3), 36 were not very restricted (score of 5, 6 or 7) and 19 were in the middle.
- The respondents were the CEO/president in 71 foundations, and the rest reported to the CEO. They had been with their foundation an average of 9.4 years.
- Notably, on question A6, which asked whether they were leaders or laggards in anticipating major shifts (on a seven-point scale), 35 respondents were leaders with a score of 6 or 7, and only three said they were laggards with a score of 1 or 2.

Using the above statistics, we could partly assess how representative our sample (N=93) is of the population (N=799) from which it was drawn. In both cases, the predominant foundation type was the community one. It was the majority foundation type in our sample, namely 60% compared to just 34% in the overall population. In terms of titles, 76% were either president or CEO compared with 69% in the overall population. In terms of asset size, the sample was skewed toward smaller foundations: 22% were below $20 million, 25% between $20 and $100 million, 37% between $100 and $1,000 million, and 19% above $1 billion. Last, 20% of the sample respondents had a bachelor's degree, 50% a master's and 17% a doctorate.

EXPLAINING VIGILANCE IN CORPORATIONS

Since the survey used seven-point, bipolar scales, we used summed score indices to create dependent and independent variables. The combinations of the questions used as partial indicators of our independent variables – which correspond to the four vigilance elements described above – are as follows:

$\mathbf{X_1}$ (Leadership) = Questions B2 + A9 + B6 + B10

$\mathbf{X_2}$ (Strategy making) = Questions A8 + B5 + B11

$\mathbf{X_3}$ (Investments in foresight) = Questions A7 + B1 + B4

$\mathbf{X_4}$ (Accountability) = Questions A10 + B8 + B9

The dependent variable or Vigilant Quotient was comprised of the summed scores from three variables (each based on a relative judgement of vigilance performance compared to rivals).

Y = A3	(Seeing outside opportunities) +
(Vigilance	A5 (Detecting fundamental shifts in the industry) +
Quotient)	A11 (Ability to anticipate external changes in the market)

In these summed item scores, the questions were equally weighted since we lack any solid prior reasons to do otherwise.

Vigilance Quotient Regression For Corporations

The standardized coefficients below show how many standard deviations a dependent variable will change per standard deviation increase in an independent variable.

	Coefficients	VIF
X1 Leadership	.21**	3.8
X2 Strategy making	.04	3.9
X3 Foresight	.28***	2.2
X4 Accountability and Coordination	.04	2.7
X5 Environmental Stability	.01	2.1
R^2 (adjusted)	=.387	
Sample Size (N) =		118
Significance level		
***		<.01
**		<.05

The data exhibited considerable correlations among the independent variables. Such co-linearity is a problem inherent in all surveys and especially when all the questions used the same interval scales with the positive anchor on the right side, which increases the "halo effect" (known as ecological correlation). The presence of this effect was confirmed by the finding that 169 of the 435 pair-wise correlations of the items in sections A, B and C were significant at the .001 levels. Fortunately, the standard test of multicollinearity called VIF showed tolerable levels for each coefficient. VIF stands for *Variance Inflation Factor* and measures the effect of multicollinearity on the variance of each coefficient. These values suggest there is moderate collinearity, because the lowest possible VIF is 1.0, whereas serious collinearity is usually associated with VIF values greater than 10.

Explaining Vigilance in Foundations

We employed the same estimation procedures for foundations as we used for our sample of corporations. Our objective was to assess whether the conceptual model was robust enough to explain the vigilance quotient of both corporations and foundations. As noted earlier, we also tested for an interaction with size by dividing the sample of foundations in half (using a median split). The results are shown below in Table B1. The overall fit of these equations is strong (as measured by R^2).

Table B1. Regression Model Fit of Our Leadership Model with the Survey Data Collected

	All organizations					Foundations		
	All (1)	Large (2)	Small (3)	Corporations (4)	Credit Unions (5)	All (6)	Large (7)	Small (8)
1. Constant	5.13***	4.33***	6.43***	5.03***	4.96***	4.54***	5.73	5.42***
2. Leadership	0.12**	0.24***	0.05	0.21**	0.0*	0.19*	0.36***	0.09*
3. Investment in foresight	0.30***	0.30***	0.28***	0.28***	0.23*	0.28*	0.31**	0.26*
4. Strategy making	0.14**	0.04	0.21**	0.04	0.25	0.17*	0.61**	0.25*
5. Accountability	0.09*	0.13*	0.03	0.04	0.21	0.31*	0.00	0.11*
6. Environmental stability	0.02	0.01	0.0005	0.012	0.02	0.00	0.00	0.00
7. Number of observations	338	169	166	112	134	89	44	45
8. R^2 (adjusted)	0.46	0.55	0.38	0.45	0.40	0.45	0.48	0.35

The values in rows 1-6 are regression coefficients measuring the impact of a one-unit change in an independent variable on the dependent variable.
*** implies significance at the 1% level, or very reliable results.
** implies significance at the 5% level, or reliable results.
* implies significance at the 10% level, or somewhat reliable results.
No stars for rows 1-6 imply lack of statistical significance, or unreliable results.

Cross Validation with Credit Unions

To interpret the survey scores of the organizations sampled, we need benchmarks. The first one concerns the mean scores of the various samples (Shown in Table B2) such that differences and similarities among the members in the sample, as captured by the means, standard deviations and correlations among the responses, can be compared. A second approach is to use outside benchmarks who completed the same survey. We have data from two such external benchmark available, namely American credit unions and companies as profiled above in Appendix B. Foundations are quite unique and different, therefore, from these benchmarks, with the risk of comparing apples and oranges. However, there are various overlaps as well, starting with the generic need of organizations to add value to some stakeholder groups to survive. This requires the ability to operate efficiently and make changes when external circumstances dictate so. We consider the 134 credit unions we sampled relevant for foundations because they are also nonprofit organizations serving a social need that economic market forces failed to address sufficiently on their own.

Credit unions are financial cooperatives, owned by the members, that historically focused on the financials needs of the underserved. They are nonprofit entities protected under the Federal Credit Union Act that Congress passed in 1934, which offers exemption from federal taxes for those that serve a well-defined field of membership with a common bond. Like foundations, there are various types of credit unions from federally chartered ones to state or local charters, all serving diverse kinds of membership. Also, akin to foundations, credit unions differ considerably in size as well as orientation. They are governed by a board of directors who are volunteers similar to many, although certainly not all, foundations. At present, there are about 5,600 credit unions in the U.S.; many decades ago, this number was as high as 18,000, but many smaller ones had to merge or close as technologies, business models, society and financial regulations changed. This historical shake out has been far more pronounced than what befell foundations, and so those still standing can offer survival lessons perhaps in case the foundation world gets wobbly.

In summary, foundations can perhaps learn from large companies how to manage better while using credit unions as closer comparisons since they share nonprofit missions and similar organizational challenges and governance issues with volunteer boards and external regulatory agencies.

The correlation coefficients of our Vigilance model replicate in these other samples as expected, since their leadership teams do have to manage turbulence and upheaval. The table below shows the mean scores of each group for all survey items and indicates higher self-scores by credit unions and foundations than corporations. It also shows that the size matters within each group.

Table B2: Mean scores for survey questions (1-7 scale) for corporations, credit unions, and foundations

Question number (1)	Survey question topics (full questions are included in Appendix B) (2)	Corporations (N=118) All (3)	Corporations Large (4)	Corporations Small (5)	Credit unions (N=134) All (6)	Credit unions Large (7)	Credit unions Small (8)	Foundations (N=93) All (9)	Foundations Large (10)	Foundations Small (11)
	A. Seeing sooner									
A1	Unsurprised by outside threats, last 3 years	4.38	3.88	4.88	5.13	5.03	5.23	5.18	5.34	5.00
A2	Unsurprised by internal threats, last 3 years	5.36	5.09	5.71	5.81	5.76	5.85	6.24	6.09	6.39
A3	Good at spotting external opportunities	4.33	4.00	4.73	4.75	4.71	4.76	5.40	5.62	5.14
A4	Good at spotting internal opportunities	4.12	4.05	4.18	4.86	4.92	4.77	5.23	5.4	4.98
A5	Quick detector of external changes	4.50	4.33	4.79	4.83	4.94	4.73	5.03	5.26	4.75
A6	Accurate past forecasts, last 5 years	4.64	4.39	4.95	5.02	5.24	4.79	5.04	5.26	4.77
A7	Use networks to see external changes	4.51	4.11	5.02	4.73	4.92	4.48	5.71	5.85	5.52
A8	Open to scouts or periphery	5.01	4.77	5.38	5.47	5.80	5.11	5.71	6.02	5.36
A9	Front-lines forward to management	4.79	4.46	5.14	4.52	4.70	4.35	5.76	5.64	5.93
A10	Information shared laterally	4.29	3.79	4.93	4.93	5.03	4.80	5.56	5.43	5.70
A11	Anticipate external changes	4.72	4.42	5.11	4.96	5.21	4.71	5.26	5.38	5.07
A12	Board involved in early spotting				4.09	4.03	4.14			
A1-12	Averages	4.60	4.30	4.98	4.93	5.03	4.81	5.47	5.57	5.33
	B. Acting faster									
B1	Leadership resources for weak signals	4.07	3.91	4.27	4.36	4.59	4.11	4.39	4.68	4.02
B2	Leadership challenges assumptions	4.60	4.39	4.89	5.07	5.26	4.88	5.34	5.43	5.20
B3	Strategic planning: how far into future	4.75	4.86	4.59	4.32	4.53	4.12	4.69	5.06	4.30
B4	Scenario planning, real options, etc.	3.59	3.54	3.61	3.37	3.77	2.97	3.13	3.47	2.75
B5	Dynamism of strategic planning	4.29	3.77	4.84	4.75	5.26	4.23	5.15	5.38	4.84
B6	Agility to adjust plans midway	4.71	4.21	5.27	5.26	5.50	5.02	5.65	5.72	5.52
B7	Advanced technology for data analysis	3.33	3.39	3.23	2.79	2.80	2.79	2.62	2.83	2.36
B8	Accountability responding to weak signals	4.26	3.95	4.61	4.52	4.47	4.55	4.81	4.89	4.64
B9	Incentives for responding to weak signals	2.82	2.75	2.88	2.25	2.56	1.94	2.83	2.79	2.77
B10	Leadership participation in networks	4.77	4.49	5.14	4.54	4.98	4.08	5.76	5.91	5.57
B11	Attitude to mistakes and setbacks	4.38	3.82	5.11	5.51	5.55	5.52	5.71	5.7	5.70
B12	Board engagement for early action				4.93	5.03	4.85			
B1-12	Averages	4.14	3.92	4.40	4.31	4.53	4.09	4.55	4.71	4.33
	C. Expectations of future turbulence									
C1	Change in your marketplace, last 5 years	3.93	3.95	5.00	4.11	4.23	3.98	4.57	5.02	4.02
C2	Speed of technological change	4.58	3.91	3.91	4.43	4.55	4.30	4.32	4.66	3.95
C3	Predictability of your market's participants	3.99	4.74	4.57	3.81	3.67	3.92	3.82	4.06	3.52
C4	Influence of macroeconomics and politics	4.67	4.09	3.86	4.20	4.38	4.05	3.92	4.19	3.57
C5	Influence of social and technological change	4.63	5.04	4.36	4.27	4.58	3.95	4.24	4.38	4.00
C6	Change in your market segments, last 5 years	4.58	4.77	4.50	4.09	4.20	3.95	4.70	4.81	4.57
C7	Potential for major disruptions, next 5 years	5.14	4.72	4.57	4.67	4.95	4.33	4.46	4.79	4.05
C1-7	Averages	4.50	4.62	4.42	4.23	4.36	4.07	4.29	4.56	3.95

Note: Questions A12 and B12 were only included in the credit union survey.

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ENDNOTES

1. See Appendix B for complete data on the sample characteristics and research methodology.

2. A caveat is in order here: The self-assessment questions about vigilance (in sections A and B of the survey) were backward looking, whereas questions about turbulence (in section C) were forward looking. So, technically, reassuring scores about past vigilance followed by alarming scores about the future may be consistent for a foundation that enjoyed years of smooth sailing in calm waters but currently perceives gathering storms on the horizon. This caveat about ex post versus ex ante questions applies to our survey broadly.

3. A fuller description of these qualities of vigilant leaders, and the research that originally led us to formulate them, can be found in Day and Schoemaker (2008).

4. As with all field surveys, caution must be exercised when generalizing from sample data to a larger population of interest. Apart from the size of the sample (which will impact statistical significance levels), there is also the question of how representative the sample is. Appendix B provides further background about the overall population of 799 foundations invited to participate in our survey as well as the 93 foundations that fully completed the survey. These respondents were mostly highly educated executives providing leadership in community foundations of varying sizes. This type of foundation represented 75 of the total sample.

5. Mavericks tend to be independently minded. They hang out with different groups and read and digest different media than their peers: see Taylor and LaBarre (2006).

6. It is hard to evaluate any one foundation about its performance level without clarity about its mission, degree of freedom and resources. And no doubt, many foundations add much social value absolutely, even if the rate of return of assets deployed may be low. Foundations typically aim to take on complex or "wicked" problems: improving the U.S. education system, income inequality and poverty, health care or safeguarding the democratic process – to name a few. This speaks to the enormous challenges facing philanthropy. Few foundations bring about transformative change, and those that do often benefit from fortuitous funding circumstances largely outside of their control.