Strategy for financing foundations:

how do they create value?

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Abstract: This paper aims at designing a conceptual strategic framework for financing foundations (non-profit organization that finance operating intermediaries with grants, debts or equity) by identifying the key strategic choices they face. Traditionally, the research on strategy has rather focused on profit-seeking organizations whose primary objective is to generate wealth for shareholders i.e. capture value. Nevertheless, the question of strategy really matters for financing foundation whose primary objective is to create value. Indeed, during the last decades, these organizations have made a breakthrough in Europe by establishing themselves as private actors that will look after the public interest. In European countries, however, the Welfare State has always been considered as the key actor in charge of the public interest. Foundations hence face the challenge of legitimacy. In addition, there is a stronger demand for efficiency reinforced by the emergence of new models of philanthropy inspired by corporate management principles. The search for legitimacy and impact and the evolution of the environment in which financing foundations play advocate for the development of a clear vision of the social value they want to create and how they plan to do it. In this paper, we define what a financing foundation is and highlight its hybrid nature by comparing it to other financing organizations. We then explore the concept of strategy and review the current literature in philanthropy with a strategic focus. We finally present the conceptual strategic framework before discussing the new research avenues raised by the conceptual model developed.

Key words: strategy, financing foundation, value creation, non-profit organization

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1. INTRODUCTION

While the term « philanthropy » itself had almost fallen into disuse in some European countries, the field of philanthropy is now experiencing unprecedented changes in Europe; a revival is observed. Indeed, during the last decades, the number of foundations, considered as the archetypal philanthropic organization (Rey-Garcia and Alvarez- Gonzalez 2011), has exploded as well as their economic weight. In Europe, the number of foundations exceeds 129.000 foundations in 2014 with corresponding total expenditures of more than 53 billion euros[1]. In addition, the legal framework governing foundations has evolved in many European countries[2], indicating a renewed interest for this type of organization. A foundation is a non-profit organization that is private, non-membership based, self-governing and serving a public purpose (Anheier 2001). A foundation is also characterized by a specific governance model in which the only decision organ is the board of directors; there is no general assembly. Moreover, what is specific to foundation in its most traditional form is its mode of action: foundation makes grants to recipient organizations that will then be in charge of the implementation of the projects in line with the mission of the foundation; a foundation does not operate itself directly in the field. Today, these organizations make an important breakthrough by establishing themselves as private actors that will look after the public interest; they aim at generating collective utility. Foundations are increasingly sought for the development and the support of multiple societal interest activities whether in the culture, scientific research, conservation or rehabilitation of heritage, social action, development cooperation or environment protection.

Nevertheless, traditionally, the welfare State has always been considered as the key player for the care of the social needs. And although the increasing role of philanthropy is recognized (e.g. as playing a complementary role to the State (Anheier 2001)), the question of its legitimacy is raised and is even more crucial as foundations benefit from a favorable tax system. Furthermore, within the field of philanthropy, new forms of philanthropy inspired from business methods emerge; the most emblematic examples are venture philanthropy or

[1]http:// www.dafne-online.eu
[2] http://www.efc.be

impact investing. These new models bring the notion of impact and efficiency (Grossman, Appleby and Reimers 2013; Ranga, Appley and Moon 2001; Grenier 2006) in a sector that traditionally relied on good faith & trust (Frumkin 2003). Originally, foundations were established by religious institutions in order to alleviate poor, disabled or sick people; hospitals, schools, orphanages were amongst the first institutionalized form of philanthropy. Built on religious values such as compassion, asceticism, sharing, etc., the essence of the foundation action was the gift as such and little attention was given to the social impact generated or its measurement.

In this changing context, foundations thus face major challenges that advocate for the development of a clear vision of the social value they want to create in the public interest and how they want to achieve it. And, this is strategy. Strategy means in fact identify the key decisions that will shape the course of the organization (Eisenhardt and Zbaracki 1992). Having a strategy involves the identification of the main choices the foundation will have to make. With the meeting between the worlds of business and philanthropy leading to a stronger demand for efficiency, the search for legitimacy and the evolution and uncertainty of the environment in which they play, the question of strategy really matters for foundations. The legitimacy challenge is pointed out by (Frumkin 2006) who states: *"The best and only source of real lasting legitimacy for philanthropy rests in the development of sound strategy"*.

Even if all organizations benefit from developing a strategic approach (Moore 2000), the research on strategy has rather focused on profit-seeking organizations whose primary objective is to generate wealth for shareholders (i.e. value capture) through the price mechanism. Which has been developed in the field of strategy for for-profit organizations cannot be applied as such to foundations as their primary objective differs significantly. The first goal of a foundation is to create value for society and not capture value for a limited number of people, there is the non-distribution constraint. What is more, the performance of a foundation cannot be measured only in financial terms and the buyer of the service or good is not the user of it; donors pay for the benefit of people different from themselves. Some researchers have also been interested in the strategy for non-profit organizations (e.g. Oster 1995; Anheier 2000). These researches have rather focused on the management of this type of organizations with a specific focus on governance. Nevertheless, as non-profit organizations are mainly operating organizations, the strategic approach developed does not allow giving full accounts to the financing character of the action of the foundations and its specific governance concentrated in the hands of the board of directors. More precisely, in the academic field of philanthropy, few are the authors who have actually studied the issue of strategy from a comprehensive point of view and applicable to all type of foundations. Frumkin (2006) is one of the only ones to have been interested in the grant-making strategy and its dimensions. Most of the authors have rather studied a particular component of the strategy (e.g. mission and evaluation of goals achievement) without including them in a global strategic reflection. What is more, the strategy for philanthropy has also been more studied in the case of the foundation is created by an enterprise but mainly from the point of view of the company; philanthropy is part of the whole strategy of the enterprise.

A fine understanding of the strategic choices that a foundation is required to make and which are directly connected to its hybrid nature (private actors financing the public interest) is then absent from the literature while the role played by these actors is increasing. In addition, the current literature in the field of philanthropy has mainly targeted the point of view of the individual philanthropist instead of developing the strategic approach from the organizational perspective. This paper aims at filling this gap. In the second section, we define what a financing foundation is and we strive to demonstrate the specific nature of this type of organization by comparing it to two different financing actors. The section 3 aims then at defining what we mean by strategy and reviewing the existing literature in the field of philanthropy. The core of this paper stay in the section 4 where we propose a strategic conceptual framework for financing foundations designed based on three strategic choices category: scope, mechanisms and governance. In the discussion in the last section, we draw future research avenues based on the conceptual framework developed.

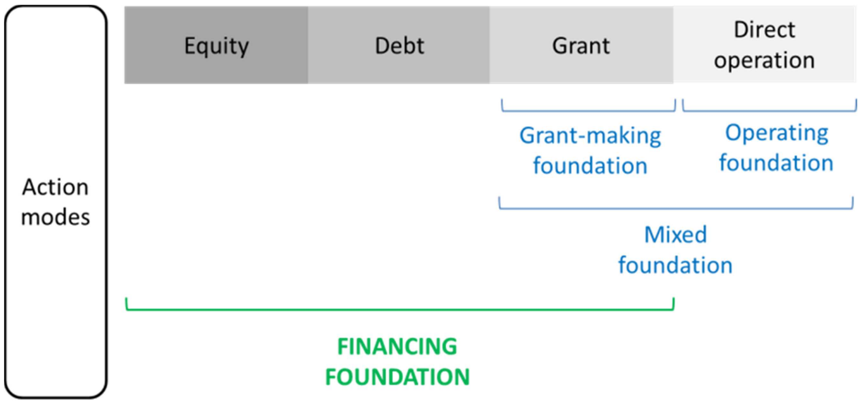
2. FINANCING FOUNDATION: AN HYBRID ORGANIZATION

2.1 WHAT IS A FINANCING FOUNDATION?

A foundation is a private organization that serves a public purpose. The very specificity of a foundation is that it pursues the public interest; it supports educational, health-related, social, research oriented or cultural projects. It also means that the beneficiaries of a foundation action are not the ones who make the decision (Gui 1991). The mission of a foundation is to create public value; this is guaranteed, among others, by the non-distribution constraint; a foundation cannot provide its founders or donors with any material gain (Salamon and Anheier 1992). Second, a foundation is, in the sense of its initiator, private; it is constituted separately from the State. A foundation is an autonomous organization with its own internal governance rules and procedures. In addition, a foundation lacks a membership and the decision power is concentrated in the hands of the board of director; there is no general assembly (Rey-Garcia and Alvarez- Gonzalez 2011). The foundation is a vehicle that leaves a certain degree of freedom to its founders. A foundation is hence a non-profit organization; its primary objective is not to make profits. A foundation is a non-profit organization that is private, non-membership based, self-governing and serving a public purpose (Anheier 2001). In its more traditional form, a foundation was also characterized by an endowment and a sustainable vocation. A financial capital is endowed to the foundation and the annual returns on investment of this capital are used to support the mission of the foundation. Today, new models of foundation emerge and one sees foundations that raise money exactly as the same way as a non-profit organization does. Similarly, while the foundations were characterized for long by their long-term vocation, limited life foundations appear in which the capital is consumed on a limited period of time (Ostrower 2009).

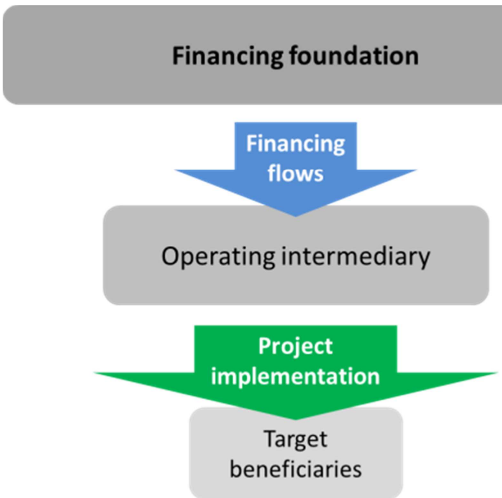
The sector of the foundations is highly heterogeneous. Depending on the founders' profile (enterprise, individuals, family, etc.) or the action mode, there are many types of foundations. A key distinction usually made in the literature is between operating and grant-making foundations (Anheier 2007). A foundation is said to be operating if it directly operates its own programs and projects. In turn, a grant-making foundation is a foundation that makes grants to operating intermediaries (i.e. recipient organizations) in charge of the implementation of projects and programs. The operating intermediaries are those that are in direct link with the ultimate beneficiaries; the action of the grant-making foundation is hence indirect. A foundation can also combine both aspects and is then qualified as mixed foundation. Nevertheless, with the emergence of new types of philanthropic actions and organizations, the term "grant-making foundation" has become too restrictive. It only encompasses the pure grants and does not include the new additional mechanisms available for philanthropic action (e.g. debt, equity) bring by venture philanthropy (Grossman, Appleby, and Reimers 2013) and impact investing (Rangan, Appleby and Moon 2001). We introduce the type « financing foundation » to correct this misalignment between the current practices and the literature. We define a financing foundation as a foundation supporting third parties with grants, debts or equity (Figure 1).

Figure 1- Type of foundations by action mode



The core activity of a financing foundation is to finance operating intermediaries which will implement projects and programs directly with the target beneficiaries that are in line with the mission statement of the foundation. There is a first flow, which is mainly financial, between the financing foundation and the operating intermediary. This financing flow can take different forms: grants, debts or equity and can be combined with not financial support in certain cases. Once the operating intermediary has received the financing, it will implement programs and projects directly for the beneficiaries (Figure 2).

Figure 2- Financing foundations action



A financing foundation is hence a private organization serving a public purpose and financing intermediaries with grants, debts or equity. A financing foundation plays the role of financial intermediation between operating intermediaries and target beneficiaries.

2.2 A PECULIAR FINANCING ORGANIZATION

A financing foundation is not the only organization for which the core activity is to finances other organizations that will be then in charge of the practical operations in the field. Nevertheless, the philanthropic nature of the financing foundation and the resulting hybridity make it a very particular organization. To illustrate this, we will compare the financing foundations with two other actors, a for-profit and other non-profit, that also make financial intermediation. We consider subsidizing public bodies and for-profit investment funds; they have a similar indirect action mode of financing. These organizations have to be understood as ideal-type in Weber's terms; the reality is in fact much more complex. An 'ideal type', in the Weberian sense, is an intellectual construction obtained by accentuation of certain traits of the considered subject (Coenen-Huther 2003).

A subsidizing public body finances social missions in the interest of the citizens of a country. In a democratic country, a subsidizing public body mission is then to create public value based on the choices of the median voter. The politic outcomes indeed reflect the preferences of the median voter (Holcombe 1989). A for-profit investment funds, in turn, is a private organization that aims at generating financial returns for the investors (Jensen 1998). The goal of a for-profit investment fund is to capture value for its investors. We compare the three financing actors according to the three constituting components of the definition of the financing foundation presented previously: public purpose, private organization and financing activity.

Firstly, a financing foundation finances a social mission and aims at creating value for a target group of beneficiaries. Whereas the mission is politically mandated in the case of subsidizing public bodies (Moore, 2000), the choices of the foundation mission is at the discretion of the founders. A financing foundation is an organization that may be very incarnated by its founders. Financing foundations, compared to others non-profit organization, are deeply imprinted by their founders and are in that sense very private. The action of the public subsidizing bodies is characterized by its universality and fairness. Financing foundations, in turn, have no direct information on the most pressing or advocated social needs; founders instead rely more on their desire to act for the public good or their interpretation of the existing needs that must be addressed. The decisions are made by private actors but, contrary to for-profit investment funds, the founders are not the beneficiaries. They make decisions for the benefit of others and it is much more complex. In addition, the effective achievement of the foundation’s mission is difficult to evaluate. Indeed the foundation aims at having a social impact and this non-financial return is complex to quantify.

Secondly, the existence of a financing foundation is conditional to the willingness of private individuals, founders or donors, to allocate, on a voluntary basis, financial wealth to the organization. The governance structure of a financing foundation by which the decision power is concentrated in the hands of the board of directors, make the financing foundation accountable only to donors and founders. A financing foundation does not have the vocation to be democratic, contrary to subsidizing public bodies. A public subsidizing body is accountable to the citizens of a country who pay taxes on a coercive basis. Nevertheless, as a financing foundation pursue a public interest mission and thanks to this, benefits from a favorable tax system, the reality of the foundation is much labyrinthine than the one of the for-profit investment funds whose is only accountable to investors “who pay for themselves”.

These different elements highlight a first tension in the definition itself of the foundation’s mission. While for the two other financing organization the definition of the mission is made objectively based on the financial return expected or the median voter preferences, the choice of the foundation is more subjective and based on founders’ appreciation; this features is even more accentuated because of the specific governance structure of the foundations. Because of their hybrid character, the financing foundations will be required to take choices more as business-like or public interest-like. The financing foundation faces the challenge to balance the private needs of the founders and the public value to be created (Frumkin 2006).

And finally, a financing foundation finances operating intermediaries with grants, debts or equity. A financing foundation can also support directly individual by granting scholarships. A subsidizing public body grants subsidies even if under certain conditions, it can also make loans. A for-profit investment fund, in turn, finances operating intermediaries with debts or equity. A financing foundation is hence a financing organization that can choice between the three financing supports. A financing foundation is a very specific actor because it can combine financing instruments rather in a public logic (grants) or investment logic (debts and equity). Depending on the social needs underlying the nature of the project supported through the operating intermediaries and the financial sustainability of the financing foundation, the foundation will have to take different decisions to carry out its mission.

A second tension emerges when we consider the financing mechanisms available to the foundation: obligation of means versus obligation of results. Indeed, despite of the emergence of the new public management in the late 1980s (Hood 1995), the action of a subsidizing public body is still mainly characterized by an obligation of means. The for-profit investment fund, in turn, has an obligation of results. In the case of the financing foundation, the positioning according to this dimension can vary. The existence of a tension between an obligation of means and an obligation of results highlights in fact the recent evolutions experienced by the field.

The discussed elements are summarized in the Table 1 according to the three key dimensions that constitute the essence of a financing foundation: ultimate goal, logic of action and means.

Table 1- Key dimensions of financing organizations

	Financing foundation	**For-profit investment fund**	**Subsidizing public body**
Ultimate goal	Achievement of a social mission	Achievement of a financial return	Achievement of a social mission
	Founders discretion	Investors discretion	Politically mandated
	Value creation	Value capture	Value creation
Logic of action	Private	Private	Public
	Control	Control	Democracy
	Charitable contributions	Investments	Taxes
	Voluntary	Voluntary	Coercive
Means	Grants Debts Equity	Debts Equity	Subsidies

A financing foundation is hence peculiar in the sense of it combines the three characteristics of being private, acting for public good and financing intermediaries. This hybridity makes the financing foundation a unique organization that will be required to make strategic choices in direct relation with these specificities.

3. STATE OF THEORY: STRATEGY AND PHILANTHROPY

3.1 WHAT IS STRATEGY?

In its pioneer paper in the field of strategy, Chandler (1962) establishes the outlines of what strategy is and defines it as the key mechanisms, having a non-negligible impact on the structure of the organization and its performance, used to put in place new directions within the firm. According to him, strategy means "*the determination of the basic long term goals and objective of an enterprise, and the adoption of course of actions and the allocation of resources needed for carrying out these goals*". A strategy for an organization is therefore up to answer two questions: "Where does the organization want to go?" and "How does the organization want to go there?" (Eisenhardt 1999). We adopt, in this paper, this very classical definition of strategy that fits our initial purpose to describe finely the strategic choices of a financing foundation.

While the literature on strategy has been extensively developed in the for-profit sector (e.g. Mintzberg 2003, Porter 2008, Hatten and al., 1978, Bourgeois 1980, Hambrick 1983, Mintzberg 1987, Porter 1996), the research on strategy for non-profit organization has attracted less scholar and has been rather conducted from a management point of view, with a specific focus on governance but without a particular attention on the strategic choices faced by this type of organizations (e.g. Rose-Ackerman 1986, Oster 1995, Anheier 2000). These authors emphasize the importance of the mission statement. The first task of management is the setting of objectives, based on the vision of the founders and the constituents and constrained by the political, economic and social environment and by the rivals in the same industry (Oster 1995). The identification of the gap between the needed resources and the current resources lead to the formulation and the implementation of a strategy to close this gap where resources are intended as financial, human, organizational and controls (Oster, 1995).

The notion of value creation and value capture allow differentiating the ultimate goal of a for-profit organization and a non-profit organization. In the field of strategy, the distinction between both is an emerging concept (Lavie 2007). Value creation is also considered as a key notion in the management literature (Lepak, Smith, and Taylor 2007). The value creation of an activity, measured at the level of the society or the system, is the net increase of the utility of all society members (Mizik and Jacobson 2003). In turn, value capture, measured at the organizational or unit level, is the appropriation of a portion of the net value created by the activity (Mizik and Jacobson 2003). For for-profit organizations, there is a clear bridge between value creation and value capture processes via the price mechanisms. A for-profit firm will have as primary goal the maximization of value capture constrained by value creation while non-profit organizations will be predominantly driven by value creation and constrained by value capture (Santos 2012). The non-profit organizations have the constraint of non-distribution or limited distribution of the profits. In the case of financing foundations, as they generally do not have commercial activities, the essence of the foundation's action is the creation of value.

3.2 WHAT DO WE KNOW ON STRATEGY IN THE FIELD OF PHILANTHROPY?

The academic literature focused on the strategy of philanthropic organizations is rather scarce; strategy is one of the most important missing areas in the field of philanthropy (Frumkin 2006). The vast majority of strategy-related documents consist in consultancy reports and best practices defined by key field actors. The strategic issues appeared in the academic field of philanthropy in the late 1980s where a shift occurred to what is called "strategic philanthropy", compared to more traditional forms of giving (Gautier and Pache 2015). Nevertheless, the interest for a strategic approach in philanthropy is not new (Connolly 2011). Already in the 19th century, Carnegie advocates for a scientific philanthropy (Carnegie 1981).

In the reviewed papers, the mission statement, the influence of environment and the mission fulfillment assessment are the most recurrent themes addressed. The mission statement of a philanthropic organization is identified as a central issue (Sheehan 1996; Young 2001; Anheier and Daly 2004; Graddy and Morgan 2006, Frumkin 2006). In particular, the theory of change chosen by the organization and the value it aims at creating are highlighted. With the wave of the new philanthropy, the issue of efficiency and impact are raised (Katz 2005; Park 1996); operational effectiveness is moreover distinguished from strategy (Kreamer and Bradford 2001). Nevertheless, the reliable measures mostly used to assess the achievement of the mission are more often administrative measures (e.g. amount of dollars raised, number of participants…) than real impact measures linked to the mission statement (Sheehan 1996). Therefore, most of the philanthropic organizations do not know whether or not they accomplish their mission. There are different tools and methods to measure the fulfillment of the mission (e.g. preferred social value (Whitman 2008)). Furthermore, the measurement of the performance of the philanthropic organizations themselves is also identify as key (Schmitz and Schillo 2005).

The influence of the environment, internal or external, in the shaping of the strategy of the philanthropic organization is at the center of several identified academic papers, especially for corporate philanthropy, community foundations and family foundations. Foundations shape better strategies if the foundation has developed a very detailed and sophisticated knowledge in the programs areas (Culwell, Berkowitz, and Christen 2004). In high dependency environment, strategic management requires a permanent focus on organizations' relationships and interactions that lead to change a permanent feature of management and to manage the philanthropic organization in terms of process (Hafsi and Howard 2005). The influence of the board in the strategic directions (focus or diversified) of family foundations and non-family foundations is also highlighted (Lungeanu and Ward 2012).

Despite the existence of academic papers having a combined focus on strategy and philanthropy, the lack of strategic approach in philanthropy is deplored (Porter and Kramer 1999, Frumkin 2006). Nevertheless, some authors advocate for common challenges for philanthropic organizations whatever the type of founders or action modes. As management dilemmas are related to the environment and the organizational structure particular to the foundations, most of the foundation would probably meet the same type of problem (Ostrower 2004; Leat 1995). (Brest 2005) establishes the links between philanthropy and successful projects led by firms and the army and develops a normative strategic approach (setting of clear goals and objectives, development of a plan to achieve these goals, analysis of the costs, risks and opportunities and monitoring and evaluation of the goals achievements). (Frumkin 2006) identifies effectiveness, accountability and legitimacy as the three main problems in philanthropy and designs a five-dimension framework as guideline for strategic philanthropy (values, logic model, legal vehicle, donors' involvement and timeframe).

To sum up, even if some pieces of strategy are addressed by the reviewed authors, the gap in term of strategic thinking in the field of philanthropy is still important. To our knowledge, except few authors such as Frumkin (2006), there is virtually nothing on the strategic choices faced by financing foundation. The bulk of strategic thinking about the choices addresses them as either (1) fairly simplistic, relating to the mission statement or (2) only considered as explanatory variables for impact. There is a gap in the literature in finely understanding, from an organizational point of view, the strategic choices financing foundations can make. Most of the existing literature revolves around the strategic leverages without really addressing them specifically. The term "strategic philanthropy", with rare exceptions, is an emerging concept that is not really anchored in a real strategy perspective. In the following section, we attempt to fill this gap and propose a strategic conceptual framework proper to financing foundations and their hybrid nature.

4. STRATEGIC CHOICES FINANCING FOUNDATIONS: A CONCEPTUAL FRAMEWORK

The conceptual strategic framework developed for financing foundations is based on the existing for-profit, non-profit and philanthropy literature as well as the knowledge of the field of foundations in Europe, especially in France and in Belgium. In particular, we have conducted 20 exploratory interviews of around one hour and half, between January and June 2014, with either the founder(s) if still alive, or the board president or the general secretary of a sample of foundations. The sample has been constructed to reflect the heterogeneity of the Belgian sector. These interviews focused on the origins and history of the founders and his/her/their foundation, their way of granting or operating, the governance and management of the foundation, the challenges they faced or are facing. All interviews have been registered and transcribed. Additional documents have been collected for each foundation, if available (statuses, internal rules, activity reports, etc.).

The conceptual strategic framework presented here aims at identifying the main dimensions of the strategy for a financing foundation. To understand strategy for a financing foundation, we first distinguish the mission statement and the strategic choices themselves. The mission statement is the expression of the financing foundation's vision and its contribution to the public value creation. The strategic choices are the controllable variables on which the financing foundation has to take decision in order to implement and fulfill its mission. The three elements of the strategy's definition of chandler (1962) - long-term goal definition, the adoption of a path of actions and allocation of resources- appear in filigree of this strategic conceptual framework. Based on this conceptual framework, a strategy for a financing foundation is understood as a combination of a mission statement and positionings on the different variables identified as key strategic choices.

4.1 THE MISSION STATEMENT

The definition of its basic long-term goals, what is at the heart of its mission, is a core component of the strategy of a financing foundation as it is for each organization. The role of the mission statement is multiple: bounder the action of the organization, motivate staff and donors and be used as support in the evaluation of the mission fulfillment (Oster 1995). The predefined goals of the organization will indeed become the metrics that will be used to evaluate past performance and asses the course of actions for the future (Bryce 1992). A financing foundation does not simply engage in the financing of social needs but invest in the creation of social value for the society (Culwell, Berkowitz, and Christen 2004). The mission statement of a financing foundation tends to meet specific societal needs. The heart of the strategy of a financing foundation is the selection of the causes it aims at supporting (Frumkin 2006). Moreover, the legitimacy, defined as "*the extent that its means and ends appear to conform with social norms, values, and expectations*" (Downling and Pfeffer 1975), of a financing foundation is closely connected to its mission statement (Aksartova 2003). The latter is even more crucial as legitimacy will also ensure the economic survival of the organization through the support of the stakeholders and the attraction of new resources (Suchman 1995).

Because of its hybrid nature (see section 2), a financing foundation could face a tension in the definition of its mission. Indeed, at one extreme, a financing foundation could be primarily driven by rationality (i.e. needs-based positioning), the mission statement is defined based on a detailed objectification (supporting by needs analysis, benchmarks…) of the existing needs. The mission of the financing foundation will be designed in order to solve whether the most urgent needs, the persistent ones or the social issues that are not tackled by other actors. The financing foundation can play, in that case a complementary role to that of the state (Anheier 2001). At the other extreme, a financing foundation could be primarily lead by the passion of its founder(s) (i.e. passion-based positioning). A passion-based positioning is heart-centered while a needs-based positioning is head-centered (Connolly 2011). The goals of the financing foundations are defined according to what make sense for the founder even if potentially it does not meet real, current or pressing social needs. Between the needs-based and passion-based positionings, there is a continuum of choices; the passion can coincide with existing social needs or else a mission defined on rational basis can then make emerged a related passion. This tension highlights the fact that beside the direct value creation of a target group of beneficiaries, there is an indirect value created for the founders and the donors. "*The principal value delivered by the nonprofit sector is the achievement of its social purposes and the satisfaction of the donors' desires to contribute to the cause that the organization embodies* "(Oster 1995). Indeed, the well-being of the founders or donors can rise because of their contribution to a public purpose through the action of the financing foundation. The founders and donors can feel happier to contribute solving a societal problem and also with the social recognition gained by this type of philanthropic action. The founders and donors accept to finance the activities of the financing foundation because of the promise of value creation for a target group of beneficiaries in line with their own utility increase. The financial survival of the financing foundation depends on the perceived value created by potential donors and their willingness to pay for it. At the light of this tension, the starting point for a strategy is hence to find a balance between the personal satisfaction of donors and founders and the public benefits created (Frumkin 2006).

4.2 The strategic choices

The strategy of the financing foundation goes beyond the mission statement. Once the financing foundation has defined its mission, the implementation of this latter requires making choices on key variables (i.e. strategic choices) corresponding to the course of actions required to fulfill its predefined goals. We have identified three categories of strategic choices: scope, mechanisms and governance. The mission statement is at the heart of the positioning on the strategic choices and the controllable variables corresponding to the "scope" are closely connected to the mission statement itself.

4.2.1 Scope

A financing foundation, by its mission statement, identifies social needs that it wants to address; in particular its action aims at increasing the utility (i.e. value creation) of a target group of beneficiaries. By doing that, a financing foundation commits on the degree of focus of its mission and defines the geographic coverage of its action.

The **degree of focus** is a theme addressed either in the literature on strategy or in the field of philanthropy (Porter 1996; Chew and Osborne 2009; Moore 2000; Graddy and Morgan 2006; Oster 1995). The mission of a financing foundation can be cross-sectorial or concentrated in a niche. The cross-sectional nature of the mission is reflected at two different levels: the domain of action and the type of beneficiaries. The domain of action encompasses health, culture, sciences, education, research, etc. and the type of beneficiaries includes children, elderly, women, disabled people, etc. A foundation with a cross-sectional goals setting will be active in a variety of domain and/or type of beneficiaries. To the contrary, a mission thought as a niche will focus on a specific domain or a specific type of beneficiary or a particular domain for a particular type of beneficiary. Between, these two extremes, there is a continuum of possible definitions and positioning in terms of mission.

The second strategic choice related to scope is the **geographic coverage** of the mission. According to us, a financing foundation can mainly take position on two dimensions for this controllable variable. The first one is the country or countries in which the foundation will be active. A foundation with headquarters in a specific country can design its actions in this area and/or in foreign countries. The second one is the perimeter of the activity of the financing foundation can vary: it could support projects at a community level, at a regional level or at a national level.

Furthermore, by the indirect nature of its action, a financing foundation will face to choice the **profile of the operating intermediaries** i.e. the recipient organization that will actually implement projects in the fields. The choices that the foundation will make in terms of recipient organizations are key (Aksartova 2003; Gautier and Pache 2014). Three characteristics of the recipient organizations emerge: the size of the recipient organization and its financial capacities, the experience of the recipient organization(how long it exists) and the type of projects the organization prefer (innovative projects with high potential or project which has already been proven).

The fourth strategic choice related to the scope is due to the character, a priori limited, of the available philanthropic resources (either financial or non-financial) of the financing foundation. A financing foundation will finally make a choice in terms of **reach** and more precisely, in terms of number of people served (Brest 2005) and amount of financing granted (Aksartova 2003; Grossman, Appleby, and Reimers 2013). Basically, a financing foundation can privilege the number of operating intermediaries (a large number of recipient organizations for which the funding provided is therefore more restricted) or select drastically a very limited number of organizations who therefore will receive a more significant funding. A financing foundation can basically privilege the quantity of granted support or the quality of granted support.

4.2.2 Mechanisms

In addition to its commitments on the four strategic variables related to the scope, the strategy of a financing foundation encompasses choosing the mechanisms through which it will effectively support its philanthropic action.

With the evolution of the field of philanthropy and the meeting with the world of for-profit investors, the relation between the operating intermediary and the financing foundation is not only anymore a relation between philanthropist and grantees but may also be a relation of investment (Letts, Ryan, et Grossman 1997; Bolton 2005). A foundation is hence facing a first strategic choice of determining what kind of financial support that will be granted or what combination of different financial instruments it will provide. The **type of financing** is a core strategic choice, a financing foundation can support intermediaries with grants, debt and/or equity. Depending on the type of project, the stage of development or else the domain of activity, a financing foundation will have a different positioning related to this strategic variable.

The second key component of the strategy of a financing foundation in terms of mechanisms is the **time horizon** of its supports. The time is a strategic variable recurrent either in for-profit sector or non-profit sector (Ref). A financing foundation can support recipient organizations and beneficiaries in a one-shot perspective or have a multi-year engagement, as it is the case in venture philanthropy (Grossman, Appleby, and Reimers 2013). Depending on the type of issue tackled by the financing foundation, its strategic positioning regarding time will vary (Frumkin 2006). A component of the strategy of the financing foundation will hence be the search for the right balance between concentrate its support in the present or spread off over a longer time period.

The foundation's commitment is not measured only in temporal terms but also in terms of resources allocated to the operating intermediary. In particular, in addition to its financial support, a financing foundation can also provide the recipient organization with non-financial resources, for example, expertise, network, time, etc (Buckland, Hehenberger, and Hay 2013; Frumkin 2006). **The level of engagement** of the financing foundations is the third strategic choice related to mechanisms in our conceptual framework. The relation with the grantees will depend on this level of commitment (Connolly 2011). The level of engagement is also linked to the founders' involvement (Frumkin 2006; Eikenberry and Tech 2006).

The fourth strategic choice that we have identified as key for a financing foundation is the **nature of the activities funded**. A financing foundation can allocate the amount granted to projects or instead support the building of capabilities of the recipient organization (Grenier 2006; Grossman, Appleby, and Reimers 2013). Another strategic dimension that underlies the specific nature of a financing foundation that finances others is the way the grantees (i.e. operating intermediaries) are selected. The **identification policy** (i.e the way the financing foundation will spot its grantees) is part of the strategy of a financing foundation. The financing foundation can use a very formalized method as for example a call for projects in its website or leave application opened all over the year (with a predefined format or not). In addition, a financing foundation can locate grantees based on the discretion of the founder or the managers of the financing foundation (Gautier and Pache 2014) or else on peers' recommendation.

The last controllable variable that we have tackled as being a component of the strategy of the financing foundation is the variable labelled **collaboration**. The financing foundation positions itself regarding this strategic variable on two different levels: internal and external. At an internal level, a financing foundation faces the choice to hire paid staff or work only with volunteers. The financing foundation can also combine both. In addition to paid staff, a financing foundation may, on ad-hoc or on a regular basis, call for experts, whether in the core domain of activity of the foundation or for managerial or financial issues (e.g. professional fund-raisers (Baber, Roberts, and Visvanathan 2001)). And finally, a financing foundation can decide to work with strategic partners (Chelimsky 2001; Graddy and Morgan 2006). A financing foundation can support recipient organizations and the related project as unique funder or in the contrary, request the recipient organization to rely on additional co-funders (e.g. State, other foundation, non-profit organization) in order to, among other, leverage its action. The use of matching partners will shape a different strategy.

Underlying these different mechanisms, the financing foundation may meet a tension between an obligation of mean and an obligation of result (see section 2), or between the impact it wants to have today and the financial sustainability of the structure. The positioning it will choose on these different strategic dimensions is inherent to its characteristics of private actor that finances the public good through operating intermediaries.

4.2.3 Governance

In addition to the scope and the mechanisms, we identified governance as the third core component of the strategy of the financing foundation. Governance mechanisms are the ones that control and direct the financing foundations in the reaching of its mission and objectives (Labie and Mersland 2011). In this vision, the corporate governance is not limited to the board of directors but also includes additional committees (e.g. strategic, scientific, financial, investment committees) put in place within the organization. In the literature non-profit, governance is identified as a key strategic choice (Oster 1995) and this applies particularly to financing foundations for which the board of directors is the only decision organ required by law. "*Foundations needs to offer an engagement strategy, via their governance, in their local deliberations, as well as a solution strategy, in which foundation decision-makers decide purely in private what they will do, where, how and for how long* "(Harrow 2011).

The board of directors is primarily strategic (Cornforth, 2003). In particular, the **composition of the board of directors** is a key component of the strategy (O' Regan and Oster, 2005; Lungeanu and Ward 2012). The board of directors plays several roles, from providing legitimacy resources and expertise, making easy the access to resources, to guiding and monitoring the management on behalf of the donors and founders (Hillman and Dalziel, 2003).

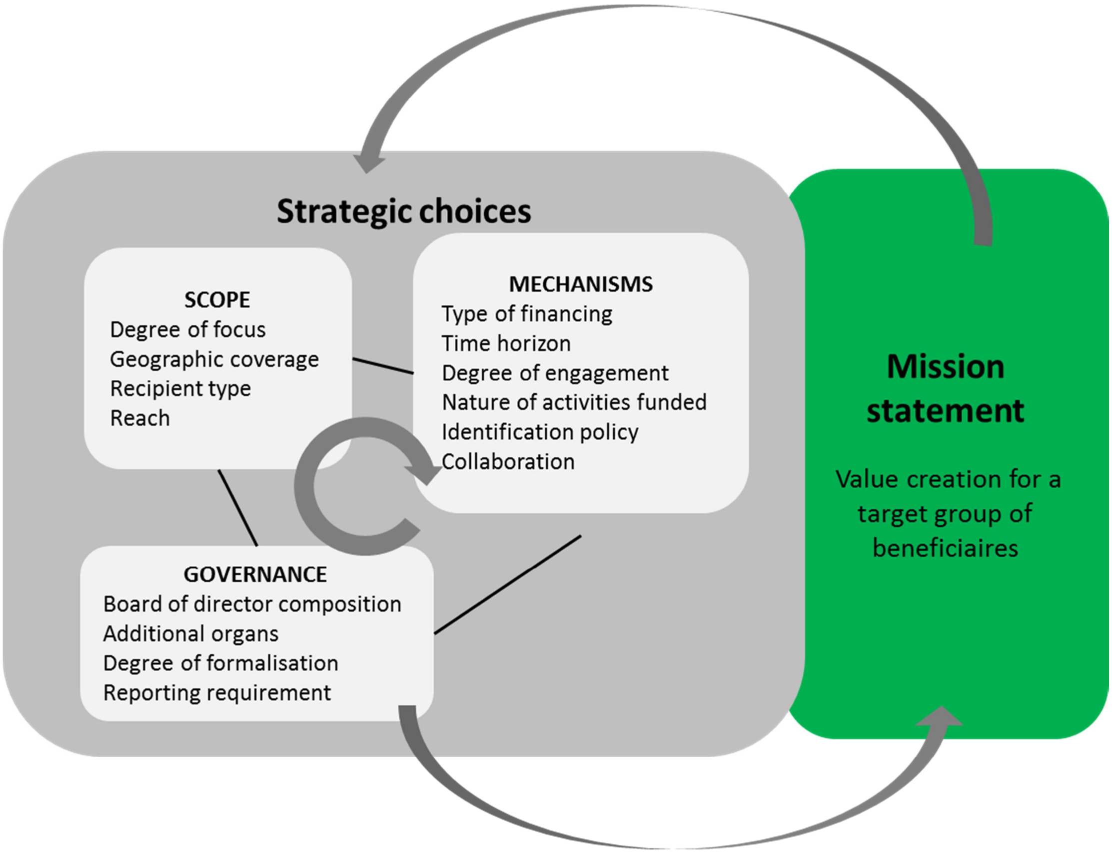
The establishment of **additional organs** in order to support the role played by the board of directors is the second strategic choice related to governance. A financing foundation may decide to put in place strategic committee, expert committee, investment committee, selection committee, etc. that will have an influence on the achievement of the mission.

The **degree of formalization** within the financing foundation is the third strategic variables that have a direct impact on the long-term goal of the organization. In addition to its statutes, a financing foundation may draw up additional documents to support the realization of its goals. In case of very important changes during the life of the financing foundation (e.g. the founder's death, a change in management team, the availability of new resources that could allow extending the action of the foundation), these formal documents can help to protect and guide the initial mission statement. The financing foundation faces the choices to formalize everything that leaves little space to innovate, address new social needs but that ensure the survival of the initial spirit of the organization. Or, at the reverse, the financing foundation can decide to keep a high degree of informality but it underlies a risk of denaturation of its mission in case of internal or external disruptions.

And finally, **the reporting requirements** are the last dimension of the strategic framework. Once an organization has received support (either financial or non-financial) from the financing foundation, the financing foundation can control the correct use of money granted, can require a description of the activities realized, can ask for the demonstration on the impact created on beneficiaries (via quantitative or qualitative indicators). These requirements can condition the grants of additional support or the continuation of the current support.

The strategic choices described hereby are summarized in the Figure 3; it gives an overview of the strategic conceptual framework developed.

Figure 3- Strategic conceptual framework for financing foundations



The strategy for a financing foundation hence consists in a mission statement and a positioning on the key strategic variables in term of scope, mechanisms and governance. These strategic dimensions are not isolated and interact with each other. And, even if for the needs of a clear presentation of the conceptual framework, we have developed the strategic choices in a certain order, the chronology of the choices made on each variable can vary depending on the financing foundation. Furthermore, the strategy for a financing foundation as for other type of organizations is not static and needs a constant review of the positioning and alignment on each strategic choice (Frumkin 2006). As evidenced, the hybrid nature of the financing foundation makes the strategic choices much more complex than for other types of organizations.

5. CONCLUSION AND DISCUSSION

In this paper, we have presented an original strategic conceptual framework for financing foundations with the aim of highlighting the key strategic choices on which these organizations have to position themselves in order to achieve their mission and create value for society. We have also underlined the very specific hybrid nature of financing foundations- private non-profit organizations that pursue a public purpose through the financing of operating intermediaries with grants, debt or equity - that may lead to some tensions and implies a higher level of complexity in terms of positioning according to the identified strategic variables. Besides, this paper contributes to fill the existing gap in the field of philanthropy for which the strategy is still relatively unknown despite an increasing demand for legitimacy and effectiveness. The introduction of the terminology “financing foundation” allowing addressing the recent evolutions in the foundations’ sector also affords a better understanding of the new trends. Furthermore, while the strategy literature has mainly focused on for-profit organizations whose primary purpose is to capture value, this framework contribute to the field of strategy by offering a conceptual framework for organizations whose first objective is to create value.

Based on the conceptual framework presented in this paper, additional research should be undertaken in order to identify a typology of strategies for financing foundations. How many types of strategies can emerge based on the strategic variables highlighted? How many are the key combinations of positionings in regard to the strategic choices (scope, mechanisms and governance)? It would advance the field of philanthropy to make an international comparison of typologies between European countries in order to improve our understanding of the strategic practices of the foundations in Europe.

Moreover, it is crucial to investigate the drivers of these different strategy types and recognize that the choice of a specific strategy does not come out of the blues. The profile of the founders, the resources available, the agency relation with the operating intermediaries or the environment undoubtedly influences the strategy a financing foundation. Future researches should study the impact of these components and the balance between them. In European countries where the foundations are expected to play a role increasingly important, policy makers need to rely on academic knowledge in order to better stimulate a philanthropic behavior. In addition, this will bring more awareness in very financing foundations on their strategic practices and help them to design a sound strategy to achieve their mission. For recipient organizations, it will shed light on the alignment between their operating modes and the financing mode of the financing foundations to achieve better coordinated efficiency. And finally, in the eyes of the collectivity, future researches in that sense will help foundations to be considered as a legitimate actor in the pursuit of the public interest.

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