Preserving Trust

Creating the California Endowment, 1996-2001

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Preface & Acknowledgments

In the early 1960s Phil Graham, then publisher of *Newsweek*, described journalism as "the first rough draft of history." At best, this paper is something like a second draft — more extensively researched than a typical news story, and filtered through more hindsight than is possible for most reporters, but not yet a definitive historical work. That will have to await the judgment of several more years.

This account was compiled over several months in early 2003 and based on more than a dozen interviews with directors, former directors, and staff members of The California Endowment, all of whom had lived through the events described. The organization of the story, the occasional passages of synthesis or interpretation, and the tentative lessons at the end are mainly the author's, and do not necessarily reflect the views of any given source. For the rest, however, credit is owed entirely to the people who shared their memories and observations, scoured old files and date-books for forgotten details, and reflected (often with remarkable self-scrutiny) on a time of intense pressure and hard work extending over many years.

This paper was commissioned by the Endowment's board of directors and guided by Julie Tugend, senior vice president and chief operating officer, and Ann-Marie Jones, her special assistant, both of whom went to considerable trouble in gathering documents and suggesting sources of perspective and information. Four board members provided generous help, over many hours and sometimes days, in reviewing drafts, supplying archival information, and hunting down missing facts. Richard S. Atlas, Sherry Hirota, E. Lewis Reid, and Robert K. Ross all offered detailed recollections, analysis, and clarification of technical information, without which many sections of this paper would have been less complete, some of them less accurate, and a few of them omitted entirely.

Chief Financial Officer Rakesh Varma and Comptroller Irene Lem managed to translate complex data on annual distributions and payout requirements into commendably clear, understandable summaries. Details on grantmaking came particularly from Mitchell Singer, senior program associate, and Rebecca Martin, director of grants administration. Celia Lombard, manager of board relations, and Sue Nowland, board liaison, provided minutes and other information on meetings of the board and its committees. Executive Assistants Jeanne Marie Dubaich and Hina Chauhan organized the interviews and maintained a steady flow of information among the many participants.

The completeness of the final product is due primarily to the exceptional care and attention to detail with which the Endowment's staff and directors have preserved its records, correspondence, and other historical documents. The integrity of the institutional

archive is itself a tribute to the Endowment and an assurance that, when a more extensive history is someday written, it will be able to be complete, accurate, and fair.

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Part I: Not 'the Same Crowd'

ON THE MORNING of November 11, 1994, under the headline "Blue Doublecross," an editorial in the *San Jose Mercury News* argued that the conversion of Blue Cross of California to a for-profit corporation was about to result in a "monumental money grab." In the paper's view — supported, it said, by the California Medical Association, the advocacy group Consumers Union, and the state's Department of Corporations — the structure of a new foundation to receive the assets of the converted nonprofit company was "too cozy and untrustworthy" to satisfy the insurer's obligation to the public.

Donating what was then estimated to be at least $2.3 billion to charity "sounds wonderful," the paper said. "But guess who would run the new foundation? The same crowd, that's who. The current Blue Cross board of directors would become the new foundation board."[1]

By the time of that editorial, controversy over Blue Cross's future had already been roiling for well over a year, and would continue for several years more. Between 1993 and '96, reporters, advocates, regulators, and editorial writers dogged the Blue Cross conversion, first to ensure that the public got a fair valuation of its assets, and then to prevent the philanthropic assets from being run by "the same crowd." As the *Mercury News* editorial illustrates, the rhetoric grew heated early in the debate and stayed that way. Talk of double-crosses, ploys, and heists created an impression that the new foundation (eventually two separate foundations), even when amply capitalized, would somehow end up in the hands of sinister forces, intent on making secret profit or denying the public some benefit.

The roots of these suspicions lay partly in a troubled history of nonprofit conversions in California, in which medical and health-insurance companies had switched from nonprofit to for-profit status and, as many critics saw it, diverted some of the nonprofits' wealth into the hands of private investors. In principle, the assets accumulated by nonprofit organizations are supposed to be used only to pursue the charitable purposes for which the nonprofit was created. If, as many observers alleged, some of these assets had instead migrated onto private balance sheets, or into the coffers of for-profit corporations, then the intended beneficiaries had indeed been deprived of wealth that was rightfully

[1] *The San Jose Mercury News*, "Blue Doublecross: Health Giant Wants to Keep $2.3 Billion Owed to the Public," Editorial Page, November 11, 1994.

theirs. These beneficiaries included, at a minimum, customers and future customers of nonprofit hospitals and insurance companies, and by some reckoning, all Californians.

Even before Blue Cross first proposed a change in its nonprofit status, there was strong evidence that the conversion process in California had indeed been siphoning some wealth out of the state's nonprofit health sector. Several earlier conversions had led to the formation of charitable endowments that were much smaller than the eventual worth of the converted companies. The remaining value had, in effect, been transferred from serving a public purpose — nonprofit health care — to private gain for the shareholders of the converted corporations.

As California Assemblyman Phillip Isenberg and health economist Daniel M. Fox wrote in 1996:

> Investors benefited considerably more than the public did from conversions of health plans in California during the 1980s. … [I]nvestors, who were often the former managers of the nonprofit plans, persuaded state regulators to accept wildly low estimates of the value of the dissolving corporations. The evidence of underestimation is that only a year or two after conversion, the new for-profit health plans were worth considerably more than the foundations they left behind.[2]

One recent controversy was still particularly fresh in the minds of Blue Cross critics: the conversion of Health Net, a nonprofit Health Maintenance Organization that became a for-profit corporation in 1992. At that point, the California Department of Corporations set a value of $300 million on the converted company, requiring that amount to be transferred to an independent charity that eventually became the California Wellness Foundation. Subsequent litigation revealed that in setting that value, the department had ignored the advice of its own experts, a Wall Street investment bank that had recommended an amount one-third higher. Soon thereafter, the value of the company rose so sharply — and so many new shares of stock were issued to the initial investors — that the Wellness Foundation's shares were worth barely half as much as the newly converted HMO.[3] Consumer groups and other nonprofits denounced the conversion as a con job by the company's executives and investors, and a case of official negligence by the regulators.

As these critics saw it, the run-up to Blue Cross's conversion looked like a replay of the Health Net story, but with more twists and turns aimed at confusing or distracting the

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[2] Daniel M. Fox and Phillip Isenberg, "Anticipating the Magic Moment: The Public Interest in Health Plan Conversions in California," *Health Affairs,* vol. 15, no. 1, Spring 1996, p. 203.

[3] Theresa McMahon, "Fair Value? The Conversion of Nonprofit HMOs," *University of San Francisco Law Review,* Winter 1996 (30 U.S.F.L. Rev. 355), pp. 367-372.

opposition. Protests began in 1993 when the company created a for-profit subsidiary called WellPoint, most of which was owned by the nonprofit Blue Cross of California. Because the nonprofit was not dissolved and continued to own the greatest part of the for-profit subsidiary's wealth, it was not technically being "converted," or at least so Blue Cross reasoned. The creation of the subsidiary was followed, even more controversially, by a full-scale conversion plan the following year. While that proposal was still under debate, in 1995, the company briefly switched gears again, and pursued an abortive attempt at a merger between WellPoint and Health Systems International. (As if to stoke the controversy further, the latter company was itself a merged HMO, one part of which had been Health Net — the very insurer whose earlier history had so galvanized the critics of conversion.)

Blue Cross CEO Leonard D. Schaeffer repeatedly tried to explain his company's reorganization plans in less provocative terms, to lay out the business rationale behind them, and to describe the public benefit that he believed they served.[4] Schaeffer argued, among other things, that the creation of the WellPoint subsidiary in 1993, in which the nonprofit Blue Cross of California owned 80 percent of the stock, was intended primarily to provide the combined company with an entrée to private capital markets unavailable to nonprofits. Blue Cross's essential character as a not-for-profit health plan would, in his view, be unchanged. Blue Cross was proceeding on uncharted territory, he wrote later, without guidance from any "law, regulation, or precedent that defined the public benefit obligations of a restructured nonprofit public-benefit entity" such as the new Blue Cross-WellPoint hybrid.

Whether one agreed with it or not, Schaeffer's rationale was a complex one, not easily conveyed amid an increasingly heated public debate. The national umbrella group that governs Blue Cross and Blue Shield plans did not, in those days, permit its members to be for-profit companies. Yet a 1986 change to the federal Tax Code had made nonprofit insurance companies taxable, thus saddling them with all the same tax obligations, and the same financing costs, as their for-profit competitors. Yet because they were still nonprofit, they had none of the access to the stock market that their competitors normally used as a means of raising lower-cost capital. The resulting blow to the financial competitiveness of Blue Cross plans threatened the survival of many of them, including California's.

Schaeffer's initial solution to the problem was, as he pointed out, unique: create a for-profit subsidiary, called WellPoint Health Networks, to carry out those lines of business not associated with a traditional Blue Cross plan. Twenty percent of the subsidiary would be sold to stockholders for some $500 million — thus giving it access to competitively priced capital without changing the overall business in any way.

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[4] Leonard D. Schaeffer, "Health Plan Conversions: The View from Blue Cross of California," *Health Affairs,* vol. 15, no. 4, Winter 1996, pp. 183-187.

What *would* change, of course, was the ownership of some of the company's earnings: Henceforth, 20 percent of the subsidiary would be owned by private shareholders, who would be earning dividends that would otherwise have stayed with Blue Cross. But in Schaeffer's view, this was not a transfer of wealth from a charity to investors, simply an exchange of a small number of shares for an equivalent amount of cash. Eighty percent of WellPoint and all of the Blue Cross parent were to remain in nonprofit hands. Schaeffer was prepared to increase the company's annual contributions to charity to demonstrate goodwill and to calm regulators' anxiety, but as he saw it, this was a far cry from the typical "conversion" of a nonprofit to a for-profit company. It certainly should not require the complete transfer of the company's assets into a foundation. At first, in early 1993, the Department of Corporations essentially agreed.

Yet the critics were alarmed and beginning to mobilize. "People saw that this was an outrage," recalls Harry M. Snyder, then senior advocate with Consumers Union and an early leader of the statewide protests. "Schaeffer had technically set this up as a restructuring, but leaving the nonprofit with not very much. So then he could say, 'Don't look at us! We're not converting!' But people saw that it waddled like a duck and quacked like a duck, and they wanted it treated like a duck."

Even the business press seemed skeptical: the Dow Jones ticker, for example, described the plan as a way to "side-step" conversion laws. Consumers Union, which had found relatively few allies in its earlier protests over HMO conversions, met with greater enthusiasm this time, and quickly organized a coalition of nonprofits from around the state to protest the move. Three California foundations made grants to Consumers Union totaling $75,000 to support the organizing and staffing of the coalition and its advocacy efforts. It wasn't long before the protest began bearing fruit: several bills were introduced in the California Legislature to impose tighter rules on Blue Cross, or to undo the restructuring plan entirely. "It was the nonprofit community raising the fuss over this, and raising the similarity to Health Net, that was the pivotal moment," says Snyder. "The reason the Legislature got involved was because of us."

In hopes of quieting these rumblings, Schaeffer agreed in mid-1993 to create a Public Benefit Department and to commit $100 million over 20 years to health-related philanthropy. The deal was struck between Blue Cross and a group of state lawmakers, led by Phil Isenberg, who in return agreed to shelve the various hostile bills then pending before the Legislature. At Schaeffer's behest, attorney E. Lewis Reid began advising Blue Cross on the creation of a charitable foundation to receive the $100 million. Schaeffer agreed that grants would be in three areas particularly favored by the legislators: access to health care coverage, health programs and services for underserved people, and support for government health initiatives.

Although the $100 million commitment momentarily quieted the legislative rumblings, it had little effect on the coalition of advocacy groups which considered the idea, in Snyder's terms, "hardly worthy of notice." And when a new commissioner, Gary S. Mendoza, took over the Department of Corporations in August 1993, support from the regulators quickly unraveled as well. In Mendoza's view, Blue Cross's "restructuring" and the creation of WellPoint had been a de-facto conversion from the beginning. As he saw it, none of this was uncharted terrain, as Schaeffer had argued; instead, longstanding principles of public policy provided a solid basis for valuing and protecting the public's interest in what he considered the converted Blue Cross. As Mendoza understood those principles, the promise of $100 million in charitable contributions over 20 years was inadequate, in his words, "by an order of magnitude."

The battle came to a head on May 6, 1994, when the commissioner wrote to Blue Cross board member J. Kendall Anderson stating ("much to everyone's surprise," Schaeffer later wrote) that the people of California were the shareholders of nonprofit corporations, and that he, as commissioner, spoke for the people. In that capacity, and as the state's designated enforcer of nonprofit laws and regulations, he notified Anderson that the $100 million offer "represents only a 2 percent return on the $2.5 billion market value of [Blue Cross's] financial assets alone, i.e., the WellPoint stock. … I do not believe that any shareholder — in BCC's case, the public — would be satisfied with that return on investment." Instead, he wrote, Blue Cross should give away $100 million in charitable contributions in 1994 alone, and then develop a plan for a longer-term public benefit program commensurate with that target.

Ensuing negotiations between the regulators and Blue Cross of California brought a nearly five-fold increase in Schaeffer's offer, to $25 million or more in charitable contributions a year, with nearly $400 million in WellPoint stock to be transferred into a new foundation. Mendoza remained unsatisfied. Then on May 13, 1994, while attorney Lew Reid was visiting family in Chicago, "a fax came in from the BCC general counsel, Brian Donnelly: 'Lew, read the *Wall Street Journal.* We need to talk.' "

'We aren't trying to make war'

On Page B-4 of that day's *Journal* was the headline "California Blue Cross Is Pressed to Give $1 Billion to Charity Due to Stock Sale."[5] The story quoted extensively from a supposedly confidential letter from Mendoza to Schaeffer, demanding that Blue Cross surrender 40 percent of its shares in WellPoint to a charitable foundation, and hinting at an enforcement action if the company didn't comply. (WellPoint stock was then selling at $30.25 a share, for a total value of $2.42 billion for all outstanding shares. Some observers believed that Mendoza picked the figure 40 percent largely because it yielded a figure very close to $1 billion.) Donnelly, who had long predicted a demand on this scale

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[5] Rhonda L. Rundle, "California Blue Cross Is Pressed to Give $1 Billion to Charity Due to Stock Sale," *The Wall Street Journal,* May 24, 1994, p. B-4.

and was still pressing for an amicable agreement, assured the *Journal* that the company was "very interested in negotiating a resolution. We aren't trying to make war here." Yet others who witnessed the escalating personal tensions between Mendoza and Schaeffer were not so sure that war wasn't in fact the right metaphor.

Reflecting on the episode later, Mendoza said that the questions before the state and Blue Cross were, in fact, neither personal nor particularly esoteric. He agreed with Schaeffer, in fact, that the initial creation of the WellPoint subsidiary had not been a conversion, in the strict sense, and that his predecessor had ruled correctly in calling it a restructuring. "But now that Blue Cross had all this [WellPoint] stock," he reasoned,

> how was it going to meet its public benefit obligations? Before that point, it was doing so by operating a nonprofit health plan. But now, how was it going to use the assets at its disposal for the public's benefit? That's what we focused on — not to reopen the question of whether it was a true conversion or not, but to follow up to determine how Blue Cross was going to fulfill its obligation to the public now that it owned upwards of $2 billion worth of stock.

In any case, the terms of debate changed abruptly a month later, when the national Blue Cross Blue Shield Association issued new rules allowing Blue Cross plans to operate for-profit, though under tight restrictions. At that point, Blue Cross of California took steps to end its hybrid structure and convert to for-profit status outright. From then on, it was clear that the company would have to transfer the full value of its assets to a foundation, and Donnelly asked Reid to prepare a transaction plan to set the process in motion. The only remaining questions were how the transfer would take place, what the resulting value would be, and who would control the foundation.

By that time, thanks to a year of organized opposition and political ferment in Sacramento, suspicions were rife that Blue Cross's restructurings and charitable offers were somehow underhanded — the work of "clever lawyers," as a lobbyist for the California Medical Association put it, "able to bamboozle the government into thinking they didn't have jurisdiction."[6] Reaction was therefore swift and hostile when Schaeffer proposed three months later, in September 1994, that Blue Cross create a new philanthropic institution called the California HealthCare Foundation, run by the company's current board of directors with himself as chairman.

On one level, the plan might reasonably have been described as an enormous victory for the Department of Corporations and the advocacy coalition. Blue Cross had come to a fairly swift, amicable agreement with a team of financial consultants retained by

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[6] Donna Alvarado, "Blue Cross's Price Tag: How Much," *The San Jose Mercury News*, Sept. 11, 1994, Page 1-A.

Mendoza to set an independent value on Blue Cross's assets. The result was to be the transfer of at least $2 billion (in the end, the actual figure came closer to $3 billion) in cash and WellPoint stock to endow a newly incorporated foundation. The Blue Cross board had formed an Independent Committee, with its own legal counsel, specifically to ensure that the charitable purposes of the converted assets would be served, without regard for the corporate interests of the for-profit enterprise. (The committee was chaired by director George Ward, who later became the first chairman of the California HealthCare Foundation.) Blue Cross's Public Benefit Department, in an elaborate philanthropic plan drawn up with consultants from McKinsey & Company, had expanded its original list of grantmaking categories from three to six, including several specific initiatives of interest to state legislators, on matters like children's health, quality patient care, and poison control, and featuring a "responsive" program that would make grants for purposes identified by community groups, rather than by the foundation itself.

Nonetheless, Schaeffer maintained that it should be the Blue Cross board, as trustees of the original nonprofit, who would see that these programs, and the money behind them, served the public interest. As the *Mercury News* editorial demonstrates, reaction to that idea was far from enthusiastic. Nearly a decade later, reflecting on the debates of this period, Harry Snyder remains convinced that "the goal was to put the assets under the control of the former [Blue Cross] board of directors, which means under the control of Leonard Schaeffer. The foundation would be about promoting the bottom line of the for-profit Blue Cross. … It would have remained Schaeffer's institution, and the assets would have remained his to do with as he wanted."

Another aspect of the plan further aggravated public suspicions: The proposed foundation was to be organized under a Tax Code provision, Section 501(c)(4), that would allow the new foundation to lobby, make political contributions, and engage in activities that could serve private interests, including those of board members. Schaeffer's rationale for using that section of the Tax Code actually had nothing to do with these controversial provisions. Donnelly and other Blue Cross attorneys had assumed from the outset that the state would require the by-laws of the new institution to prohibit such activity, and that assumption was correct. Instead, their reasoning was based on several laws affecting foundations' ownership and sale of stock. A "private foundation" organized under the more restrictive Section 501(c)(3) would not be able to hold a large share of WellPoint stock indefinitely, but could have to "dump" it quickly, driving down its value. (In the end, Mendoza agreed with this position, and the California HealthCare Foundation was, in fact, created under Section 501(c)(4) as the Blue Cross attorneys had proposed. It was then able to receive all of the stock of Blue Cross of California, later named WellPoint, and dispose of it in a slow, orderly way. A separate institution, now called The California Endowment, was organized as a private foundation under Section 501(c)(3) and carried on the overwhelming majority of the eventual grantmaking.)

Whatever the underlying intent of Schaeffer's plan, the appearance of a foundation run by corporate insiders, seemingly free to engage in electoral politics, and with an apparent financial incentive to make grants that would "benefit WellPoint directly" (the *Mercury News'* words) served mainly to fan the anti-Blue Cross sentiments in Sacramento. By November, the Department of Corporations was holding public hearings around the state. Early the next year the Legislature was once again debating a series of hostile bills, including one sweeping proposal to create a single state-run foundation containing the assets of *all* converted nonprofits. Soon after the public hearings, Mendoza hired a team of consultants to set an independent value on the company's assets and to review the legal and financial issues affecting different kinds of foundations.

In this atmosphere, it soon became clear that Blue Cross and its directors and officers would have at most a minority role in governing most of the resulting charity. The actual merits of Schaeffer's legal and philosophical arguments about who should govern the charitable assets, the former nonprofit trustees or state officials, were never fully weighed. Instead, the terms of debate shifted once again, in April 1995, when Blue Cross announced plans to merge with Health Systems International.

Once the merger talks were announced, Schaeffer moved swiftly to clear the way by settling his disputes with Mendoza, mostly in the latter's favor. He agreed to the creation of a second foundation (now The California Endowment) to make grants as a private foundation, governed by a board with only a minority of Blue Cross members. It would start with $1.1 billion in cash. The stock, and some $135 million in cash, would go to the California HealthCare Foundation, which would gradually sell the shares and distribute 80 percent of the proceeds to The California Endowment. The latter would operate under the more restrictive 501(c)(3) rules, under a diverse board and staff, and do the preponderance of the grantmaking. The mission of both institutions was the same:

> to promote the availability of and access to quality and affordable health care and related services to the people of the State of California, including, without limitation (i) to improve the availability of and access to such care and services to the uninsured, underinsured, and other underserved populations, and to improve the health status of all Californians, (ii) to develop and maintain initiatives to address short-term and long-term health care needs and concerns, (iii) to provide grants and establish programs to carry out such purposes, and (iv) otherwise to serve the health care needs of the people of the State of California.[7]

Yet whatever goodwill these agreements achieved began to unravel later in the year, when the WellPoint-HSI merger fell apart. Accounts in the financial press tended to

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[7] Certificate of Amended and Restated Articles of Incorporation of Western Foundation for Health Improvement, executed May 7, 1996, p. 1.

emphasize titanic personality clashes between the two companies' CEOs, thus stirring up more suspicions about the ability of top insurance executives to pursue a broad public interest. Advocacy groups, reporters, and legislators stepped up their pressure on Mendoza to ensure, first, that the failed merger would not adversely affect the funding of the new charities (the abrupt end of negotiations briefly lowered the value of WellPoint stock) and second, that the directors and officers of these foundations would fully represent the California populace.

In what quickly became the prevailing view among advocates, the foundation boards should not be drawn primarily from insurance and health-care professionals, or, for that matter, from any kind of corporate or civic elites — in short, the kinds of people who had come off looking unreliable in the publicity surrounding the failed merger. They should be, as Snyder put it, "representatives of the diverse communities of the state of California," and of the many forces that affect the health and well-being of Californians.

A Snapshot of California

The idea that the governing structure of these institutions should be "representative" thus became one of the first of many principles that would shape their identity and sense of purpose. On one hand, to some Blue Cross board members and even to some observers outside the company, the idea of "representativeness" could easily be taken too far. This was not, after all, supposed to be a constituent assembly, but a group of committed and expert leaders with sufficient knowledge and experience to manage and allocate huge sums of money in an effective way. Yet by the time the board selection process began in mid-1995, virtually everyone agreed that it must also draw from the full range of California's ethnic, economic, and geographic sub-groups, and from a wide selection of relevant professions. It needed to include people who could speak expertly not only about the state's health care system and resources, but also about its health *needs* — especially the needs not being met by the current system.

That requirement took deepest root, and was most painstakingly applied, at the foundation that would become The California Endowment. Not only was this the institution governed by the "private foundation" rules of Section 501(c)(3), and the one with the larger grantmaking budget, but the director of Blue Cross's Public Benefit Department, Ann Monroe, and her staff viewed it as the logical place to pursue the "responsive" part of the grantmaking plan that had been drafted with McKinsey's help in 1994.

The opinions of the Blue Cross staff, of course, carried no special formal authority. The new institution's board and executives would be free to steer the institution in whatever direction they chose, consistent with a mission of "improving the availability of and access to … care and services to the uninsured, underinsured, and other underserved

populations."[8] But Monroe and her colleagues had two crucial advantages in focusing this mission, at least initially: First, they were already on the job in 1995, while the board and executive leadership were yet to be chosen. And second, they were soliciting ideas and proposals from California nonprofits — a formidable constituency for any grantmaking institution, especially one being created in the glare of so much publicity and controversy.

The Blue Cross Public Benefit Plan, as amended and expanded in September 1994, had described six areas of grantmaking, one of which was called the California HealthCare Partnerships Program. This program was intended to seek out community-level priorities in health and health care and then make grants to pursue them. When the creation of a second foundation was proposed the following year, Monroe and her staff came to think of the Partnerships Program as a logical focus for that foundation. A key reason was that the second foundation — which most people then knew only by Tax Code shorthand as "the (c)(3)" — would have the overwhelming majority of the grant dollars. Another reason was that the majority of its board members would be from outside Blue Cross.

Irked by Schaeffer's desire to keep control of charitable activities after Blue Cross's conversion, regulators seemed doubly intent on divorcing the new foundations from Blue Cross and its leaders. Among other things, the Department of Corporations pressed for both foundation boards to have only a minority of Blue Cross members. But on that point, the national Blue Cross Blue Shield Association strongly objected. One of these two charities, the California HealthCare Foundation, would be the majority owner of a Blue Cross licensee (most of the Blue Cross/WellPoint stock would be given to the HealthCare Foundation, and would be sold only gradually). The Blue Cross Blue Shield Association, through its counsel in Chicago, insisted that such an organization needed to have experienced health-insurance directors as a majority of its board, as well as people with expertise in securities and investment. This demand could not be ignored; without the association's consent, the converted company could not use Blue Cross's name and service mark — a handicap that would have reduced the company's value, and thus shrunk the assets of the two foundations. Ultimately, the state acquiesced on the composition of the HealthCare Foundation board, provided that the other foundation's board have a non-Blue Cross majority.

As a result, the board of what became The California Endowment was likely to be more diverse — in geography, race, class, and professional background — than the board of its sibling institution. That seemed, both to the Public Benefit staff and to some Blue Cross directors, as a good reason to emphasize the "responsive" Partnerships Program in preparing grant recommendations for that institution's consideration. Making responsive grants across such a large and diverse state, they reasoned, would require a board and

[8] In its first year, the board shortened and clarified the mission, which now reads "to expand access to affordable, quality health care for underserved individuals and communities, and to promote fundamental improvements in the health status of all Californians."

staff that were well versed in the many different communities that make up California, with particular emphasis on underserved and low-income communities. They would have to be able to understand conditions and recognize leadership in each community, seek out residents' needs and ideas, and make intelligent judgments about which ones should be funded. For that task, a "representative" board and staff would be not merely a political ideal, but an operational necessity.

The initial responsibility for selecting board members for the two foundations fell to the incumbent Blue Cross directors, in a series of meetings beginning in mid-1995. Board members who did not remain as directors of WellPoint would have an opportunity to serve on one foundation or the other. Nine would join what became The California Endowment, and five would go to the California HealthCare Foundation. To fill out the remainder of the two boards, the Blue Cross directors would form a single pool of candidates, scouted and vetted by executive search consultants, and then sort them, according to the candidates' preferences and expertise, into two separate governing bodies.

It was a responsibility the incumbent board was determined to discharge in a process so transparent — and with a result so evidently fair and representative — that the state would have no reason to second-guess their selections. The point was not primarily to keep state regulators at bay (a goal that would, at that point, have been all but futile anyway). It was to build public confidence in the new institutions, to undo the ill will that had seemed to permeate the previous three years' deliberations, and (for some members, at least) to justify the confidence that Schaeffer and others had placed in them as the rightful bearers of a public trust. And above all, they wanted to build an institution whose leadership and reputation were commensurate with its enormous size. (It would start life as the seventh largest foundation in California and become the 12th largest in the country by the end of the decade.)

"There was so much attention focused on everything we did," recalls Sister Ruth Marie Nickerson, a hospital president and Blue Cross director who became a founding member of the California Endowment board. "All of us felt this constant, overarching need to be sure we were responsible and accountable for carrying out the creation of this new foundation. We felt very strongly that we wanted to do it *right*, that we had to be accountable. … There were such exaggerated expectations, really unrealistic. But that just made us want to try harder, do better, prove what was possible."

In mid-1995, with the ill-fated merger negotiations still under way, Blue Cross board members began what would become a search for 17 Californians to fill out the majority of the two foundation boards: ten for the yet-unnamed California Endowment (thus making a total board membership of 19 people), and four for the California HealthCare Foundation (to make up its total of 11 members). Starting off with the help of just a single executive search firm, the search committee, chaired by hospital executive Michael D.

Stephens, quickly decided that no one firm would be able to reach deeply enough, with enough information, contacts, and sensitivity, into all of California's ethnic, social, and professional circles. So four firms were set to work at once, specializing in different segments of the state's geography or population, and each bringing in hundreds of potential candidates, winnowing résumés, and vetting the recommendations with community leaders, public officials, and experts in philanthropy and public health. At least one recruiter estimated that the total number of résumés considered must have been well over 2,000. From these, the consultants chose 25 names to submit to the board.

Sifting through the list of finalists, many of the Blue Cross contingent found themselves surprised by the wealth of available talent and the breadth of leadership experience the prospective directors could offer. Blue Cross Director Ken Anderson, who became the founding chair of The California Endowment, remembers that a search for a "representative" board also ended up producing something more: a group of distinguished visionaries.

> When the original Blue Cross board members selected the first board for the Endowment, they were looking for diversity — not just in demographics, but in forms of expertise, in backgrounds, in work experience. When it came together — the talent, the depth, the intellect, the experience of that board was just mind-boggling. There were a number of people who were in the trenches, running care entities for the uninsured and underinsured, who were there to balance and bring reality to those with government and business and university experience. You could see all the pieces, of all different shapes, fitting into a complete picture. It was just very impressive.

Some of the candidates, despite their credentials, were surprised to be invited for interviews. One example was Stewart Kwoh, executive director of the Pacific American Legal Center of Southern California and a member of the board of the California Consumer Protection Foundation. The consumer group had helped fund the opposition to Blue Cross's conversion plans. In his interview with Stephens' selection committee, Kwoh felt bound to let the group know that he had been among the people who had caused Blue Cross so much trouble for the past few years.

"I told them I had to make one admission," Kwoh recalls. "We had funded the advocates who had challenged the original conversion. I was sure that would ding me from the whole process. Instead, their response was: 'If you don't hold it against us, we won't hold it against you.' That told me, right there, that this was a group I could trust and could work with."

The process of finding and interviewing candidates, and selecting the right mix of strengths and background, lasted well into the following year. Toward the end of this

process, as directors were formally chosen for one board or the other, they began sitting in (technically as observers) on meetings of the respective Blue Cross committees organizing the new foundations. When Anderson called the first meeting of the California Endowment board to order on May 30, 1996, only one of the then-19 seats was still unfilled.[9] The remainder represented a panorama of ethnicities, ages, regions of the state, and gradations between rural and urban. Two had Ph.D.s, two were physicians, two had public health degrees. Experience ranged from medicine, hospital administration, and public finance to leadership in civic and nonprofit organizations in low-income and immigrant communities of many kinds.

"There was a feeling of differences at first," recalls Sister Ruth, "between those who came from Blue Cross and those who were truly from the community. But there was eventually an appreciation of the gifts everyone had to bring to the organization. And rather than creating divisions, the differences in background quickly became a unifying factor: We had lots of different kinds of perspectives and experience that we could draw from in solving problems that weren't familiar to any of us, but were now our collective responsibility."

Part II: In the Deep End

The first reality to confront the new board in May 1996 was the enormity of what they were expected to do, and the short time they had in which to do it. Under normal Internal Revenue Service rules, every year a foundation must pay out, in grants and program administration, at least five percent of its total assets during the prior fiscal year. Based on the assets held by The California Endowment at that point, 5 percent would have been upwards of $50 million. Fortunately, the IRS calculation is based on the *previous* year's assets, which has the effect of allowing a new foundation a year's grace period with no payout requirements (a new foundation, by definition, would have had zero assets in the previous year). That generally allows a new institution time to staff up, organize, and start soliciting proposals.

But this wasn't just any new foundation. In practical terms, with state legislators, regulators, the attorney general, a still-vigilant coalition of advocacy groups, and the press eager to observe the new foundations in action, a year of little or no grantmaking

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[9]The new institution technically started life as the "Western Foundation for Health Improvement." During two preparatory meetings of the Blue Cross board just before the conversion, with many members of the future foundation board participating in the discussion, the name was changed to The California Endowment.

was out of the question. In fact, it was expressly forbidden: To be certain that the public benefits of Blue Cross's nonprofit wealth wouldn't be lost during a long startup phase, the Department of Corporations had imposed its own payout requirement for the first year: 5 percent of all the assets, both cash and stock, in the two institutions combined. That would mean 5 percent of $3 billion, or $150 million. Of the two institutions, the only one with a substantial amount of cash ready for granting was The California Endowment. So in effect, nearly all of this grantmaking burden would have to be borne by that institution alone. For comparison, that was the approximate annual amount that the Rockefeller Foundation, a 100-year-old institution with nearly 200 employees, handed out worldwide.

The reason for such a huge mandate was that Mendoza believed that Blue Cross's charitable obligations were already a year behind schedule, and he was unwilling to allow the delay to go on any longer. The Department of Corporations had approved the Blue Cross Public Benefit Plan on March 15, 1995; but thanks partly to the abortive merger negotiations, the foundations weren't created until the following May. Meanwhile, Blue Cross had scaled back its grantmaking, expecting the foundations eventually to pick up the slack. So the state insisted that the 5 percent requirement be met by the end of the foundations' first year — just nine months from the day Ken Anderson called the first meeting to order.[10] Meanwhile, the new board was in effect facing an all-but-blank slate — no program guidelines, few applications, no CEO, a raft of governance and policy questions to resolve, and a relatively new staff of fewer than two dozen people, most of whom had been recently hired by Blue Cross in the months leading to conversion.

In later months it eventually became clear to everyone, including the regulators, that this requirement would be impossible to meet responsibly. The deadline was later extended and the $150 million additional spending requirement spread over three years[11]. But at the moment Anderson's first gavel fell, the board members, many of whom had never met before and knew little about one another, believed that they had no choice but to reach decisions on $150 million in grants in nine months while also building an organization, hiring a CEO, setting policy and strategy, and laying the groundwork for the second year's grantmaking — when a new payout burden would be piled atop the old.

To make matters worse, of the two new foundations, The California Endowment had been designed as the major grantmaking arm. The California HealthCare Foundation was seen as a small spender, by comparison, because its assets were less liquid. Its tax status had been specifically designed to allow it to receive and hold a large share of WellPoint stock,

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[10] Actually, it was not clear what "year" the regulators had in mind: calendar or fiscal. Foundation counsel Lew Reid interpreted the order as meaning the California Endowment's fiscal year, ending February 28. Had he not done so, the deadline would have been only seven months away.

[11] The total was also reduced somewhat, through a complicated formula in which the first year's federal payout requirement was subtracted from the state-mandated payout for the following year.

and to turn over to The California Endowment a significant share of the proceeds when that stock was sold. In exchange, it was understood that The California Endowment would cover a portion of the HealthCare Foundation's legal payout requirement. In other words, the Endowment would have to make not only the grants required of it by the IRS and by the state, but it would have to make additional grants as well, to meet some of the obligations of its sister institution.

In the calm of hindsight, few people discuss these matters today without laughter. But at the time, no one found any of it funny. "It was just an astronomical amount," says founding board member Mike Stephens. "It was totally irresponsible to give out [that much money] with no staff. Yet we couldn't take the time we needed to put a staff together and then make decisions, because then we'd be even deeper into the grant year, with even less time remaining to make grants."

Nor was making grants the only responsibility the new directors had to shoulder. Among many other things, they were now, suddenly, governing a billion-dollar institution whose net worth would rise sharply as the California HealthCare Foundation sold more and more shares of WellPoint. Leobardo F. Estrada, public policy professor at UCLA and a newly recruited board member, was initially assigned to the finance committee, where the first assignment was to decide how to invest $1 billion. "The first thing we learned," he recalls, "is that we didn't have a bank! We were starting with nothing — really, with less than nothing, and yet with an awful lot of money." The finance committee quickly became "one of the heavier committee responsibilities, meeting every week with a string of major decisions to make." With guidance from the investment advisory firm Asset Strategies, the committee explored various ways of apportioning the foundation's assets among stocks, bonds, and cash, and made investment recommendations to the full board — where only two or three members had any experience with institutional investing on this scale.

Discussions therefore involved introducing many board members to basic investment concepts and walking them through how their choices would affect spendable income, to ensure that the Endowment would have sufficient cash, year after year, to make grants and cover its administrative overhead. "Among other things," Estrada remembers, "we had to figure out what our payout was going to be, based on how much money was coming in and how much we were earning, and that then drove everything else."

To work on "everything else," particularly the construction of a grantmaking program, there was only a tiny staff inherited from Blue Cross. In the months before the first board meeting, the head of Blue Cross's Public Benefit Division, Ann Monroe, had drafted the mission statement and hired a handful of people who were beginning to research possible funding targets. They were now available to solicit, evaluate, and recommend grants to the board. It might have seemed logical, therefore, to rely on her as the foundation's starting CEO, but that was not an option. Among the state's precautionary measures to

ensure that the foundation wouldn't be a tool of "the same crowd" that ran Blue Cross, the Department of Corporations forbade the new foundations from hiring any Blue Cross executive as CEO for at least five years.

Fortunately, the board included one member able to fill in as temporary CEO until a full search process could be completed. Richard S. Atlas, a Los Angeles philanthropist and former investment banker who had retired at 51 from Goldman Sachs, became acting CEO of the Endowment in July 1996, working an average three days a week. Enrique Hernandez, Jr., a Los Angeles businessman, acted as CEO of the California HealthCare Foundation on a similar basis. One staff, on the payroll of the HealthCare Foundation, performed all of the staff duties for both institutions. By that time, the payout deadline was now just over half a year away.

Besides his experience as a manager and a few free days per week to devote to the job, Rich Atlas had at least one other advantage as he took temporary control of the Endowment in July 1996: He had actually created a foundation and made grants. Although the Atlas Family Foundation is tiny compared with The California Endowment, it had provided a useful training ground for someone who was now, unexpectedly, a full-time grantmaker. Few others had any such experience to rely on. For the great majority of board members, in fact, the complexities of grantmaking had come as something of a shock. Several confess that, at first, the enormous payout obligation had not distressed them nearly as much as it might have if they had fully understood what it entailed.

Instead, as Mike Stephens puts it, "I doubt that any of the nine of us coming over from Blue Cross had ever been involved extensively in philanthropy from the side of giving, as opposed to requesting. I really had no concept of what it would mean — or more than anything else, how difficult it became to give money away intelligently. If I had any initial thought, it was, 'Boy, it's going to be great to be in a position where you give money away and you don't have to struggle the way grantees have to do.' … What strikes me most, thinking back, is how daunting the task became. The dollars were just astronomically higher than what had ever been expended [on philanthropy] by Blue Cross."

"You'd think giving away millions of dollars would be easy," Anderson adds, "but it's not.

> … There was this idea that we had so much money that we were going to be able to cure the ills of California. As a board member, it was a tremendously wonderful lesson, but it was combined with almost a kind of hopelessness when we began to learn how big, how diverse the state of California was, and how many problems in health care there were out there. Looking through the eyes of an acute-care hospital administrator, this was just a drop in the bucket in the continuum of health-care problems

> in the state. It was just overwhelming. The education one gets as a board member in terms of the immensity of the challenges of a healthy California was just staggering.

“Daunting,” “hopeless,” “overwhelming,” “immense,” “staggering.” The vocabulary the initial directors use in reconstructing this period speaks volumes about both the pressure they were under and the degree to which they were unprepared for it. Yet the obligation remained unrelieved as Atlas took the reins in midsummer 1996. His mission included — among several other necessities — finding a way to satisfy the $150 million mandate and ease the board and staff past the “immensity” of what they had taken on. Meanwhile, the directors once more sought the help of executive recruiting consultants, this time in search of a permanent CEO.

Part III: ‘Responsive,’ ‘Community-based,’ and Other Values

Recall that one reason for assembling a *representative* board was so that it could ably govern a *responsive* institution. On Atlas’s first day as acting CEO, the foundation had only one approved grantmaking program, which the board had ratified at its first meeting, two months earlier. That was the Community Health Investment Program, or CHIP, an explicitly responsive undertaking designed by Ann Monroe with staff member Mariano Diaz. It was only a slightly revised version of the Blue Cross Public Benefit Department’s Community Health Partnerships Program, which had been established explicitly to show that the company’s contributions could *respond*, effectively and supportively, to the health needs of California’s many communities.

CHIP was not so much a program as a philosophy of grantmaking. It was based not on a set of goals or desired results, but on a belief that goals and results should be chosen, at least in large part, by communities and their leaders. As Ann Monroe prepared for the launch of the two new foundations, she was deliberately recruiting a staff with backgrounds in community-based organizations, rather than any particular expertise in health. In the months leading to the Blue Cross conversion, Monroe and Diaz and others had held community forums across the state to solicit ideas and encourage local organizations — especially those not accustomed to dealing with foundations — to prepare and solicit proposals. The forums had been required by the Department of Corporations, but Blue Cross staff welcomed them: They wanted the Endowment’s early grants to demonstrate that the new institution could reach into places where the health system was weak or inadequate and where communities lacked a voice to improve it.

Board members, for their part, had both philosophical and political reasons for embracing that same approach, though not all members viewed the approach in the same terms. One segment of the board, a plurality of the members, directly represented some of those underserved communities, and had devoted years to advocating for better services there. For them, programs were more likely to be "community-based" when they were locally led and administered by local institutions. Several others, although not directly from community groups, had other reasons for wanting to rely on the leadership and priorities of community organizations. Members such as telecommunications executive Leroy Barnes, investment banker Rich Atlas, businessman and museum president Harold S. Williams — people, in short, from nominally elite backgrounds — made strong appeals for aiming the grantmaking program squarely at minority or lower-income groups, rather than primarily on hospitals and research institutions, universities, and other centers of the health and medical establishment.

For some members, however, being "community-based" had less to do with who ran any given program or received any given grant, and more with who benefited, and whose voice was influential, in the setting of program goals. Others viewed it the other way around: Grants and programs need not always be designed by community leaders, but they should generally support the work of — and be carried out by — community institutions. "The idea that no one other than the person on the street has any wisdom — that doesn't make any sense," said one member. "But the importance of getting the money to the grassroots, that's a real value I support."

Some board members, drawn from many different backgrounds, also felt strongly that the Endowment needed to address some big, statewide, "systemic" issues not limited to individual communities. Children's health, for example, was an early favorite. The issue clearly affected different communities in different ways: Some demographic or geographic groups had specific problems of their own, yet many childhood diseases and problems affected children throughout the state, and were neglected or ineffectually dealt with by whole statewide systems of prevention, care, and insurance. Poverty also affected health, both by aggravating harmful conditions and by reducing people's ability to get health care. Many of the health effects of poverty were similar for Native Americans, Asians, Latinos, and African Americans; northern, southern, and central Californians; and urban and rural residents. Several board members believed that the health care systems needed to be realigned at the highest levels, not just in particular communities, in order to address such things more effectively. And The California Endowment should, in their view, take a role in that realignment.

These different views were far from mutually contradictory, but they were not identical either. The idea that the Endowment's program should be "community-based," for example, appealed to many members. But what did "community-based" actually mean? Almost everyone is part of a "community," and usually more than one. Discussion of

what “community” and “community-based” would mean, in practical terms, and what it would mean to be “responsive” to communities, would continue for months (and the topics periodically surface even many years later). Similarly, many members were committed to “systems change” — but what does the health “system” consist of? And how would a single foundation affect that system’s many moving parts, involving annual sums of money hundreds of times larger than the foundation’s whole endowment?

To confuse the picture further, board members were still getting to know one another, and were in some cases uncertain about one another’s unspoken beliefs or even hidden motives. Some members, recalling the period, use words like “discord,” “tension,” or “uneasiness.” Although open confrontation was rare, many directors remember feeling, like community foundation executive director Peter H. Pennekamp, that “my role would be to try to argue for points of view that others would be resistant to,” or as Sherry Hirota, CEO of a community health organization, put it, “people from different backgrounds might not really understand what someone was saying, or might filter it through a set of assumptions that the speaker wasn’t even aware of.”

So much of the Endowment’s origin had been tied up in confrontations between corporate and community interests that those tensions inevitably carried over into early board discussions, even if subliminally. When questions of broad philosophy arose — like the meaning of “community,” or “responsive” or “system” — sensitivities ran high, and opportunities for misunderstanding were plentiful. As in any new, diverse group, members were wary of one another at first, or inclined to test the reactions of people from other regions or other backgrounds. “Sometimes,” one member recalls, “I think people lobbed these philosophically charged issues not because they really believed the issue had to be resolved right then and there, but because they wanted to scope out where others were coming from, and what the points of resistance might be.”

“If you have a universe of things you might do,” said another member, “abstractions start to take over. But when you start to narrow down to particular grants, health problems, population groups, you start to have a body of experience that sweeps away the generalities.” In those cases, another member observed, the group proved surprisingly like-minded: “When the questions were concrete and practical, there was rarely any serious disagreement. These were people with remarkably similar values, but they tended to express those values differently, depending on their training or their history. The less abstract the conversation, the quicker we reached consensus. And each time we reached consensus, we built up a little more trust for the next discussion.”

Fortunately, there was not much time for abstractions. The organization needed to start making grants in large amounts and on a tight schedule. The crush of business was already making for long, frequent meetings, and a time-consuming debate on philosophy was the last thing the new group needed. For Ken Anderson, trying to chair the meetings, the most urgent mission “was to achieve the trust and understanding of all these talented

board members so we could actually sit down and feel some comfort in the room to achieve some kind of a common vision."

A breakthrough of sorts occurred at the beginning of October 1996, at a board retreat facilitated by consultant John Carver, a specialist in organizational governance. As Rich Atlas remembers the event, it began with a discussion about trust, and how to encourage open, candid deliberations at board meetings.

> I don't remember exactly how we got there, but we all signed on to something like a Code of Honor: that none of us as board members would be thinking about another board member having an ulterior motive or a hidden agenda — that whatever the issues were, we were going to discuss them in the open. There were never going to be any back-room deals. And if one of us made a presentation on something, or an impassioned plea, [the others] wouldn't be thinking 'what's really going on here?' We agreed that we would all trust that what was 'going on here' was what was going on *here*. And that had a huge impact on me. Every one of us individually raised our hands and unanimously supported that value of trust, which was critical, a very important part of our culture as a board and as an organization.

Discussions of basic philosophy continued for several months, but many members recall the mood easing as 1996 came to a close. As members opened up more in meetings, they got to know one another better, felt welcome to air their misgivings and evolving ideas, and found consensus easier to form. Gradually, even thornier issues like the definition of "community based" became more accessible to debate and resolution. And in fact the board did settle, a few months later, on a seven-page statement elaborating on the concept. Among other things, it asserted that

> Community can mean either a geographic location (e.g., four census tracts in a town) or a place (e.g., a housing project). In addition, community also means a shared history, common interest, or association among individuals and groups. It also can mean that it needs to represent all stakeholder groups of the particular community, and that solutions are grounded in a local perspective.[12]

As with the structure of the CHIP program, this was less a definition than a broad statement of values. It didn't so much narrow the topic as express a general agreement on the breadth of the idea and its general applicability to a wide range of grants. As several members pointed out during the debates, taking a "community" focus did not necessarily restrict the number of fields in which the Endowment might make grants, or the intended

[12] "The California Endowment: Defining Community-Based," August 1997, p. 2.

beneficiaries of those grants, or even the extent to which some grantmaking would be aimed at larger statewide systems. Instead, it committed the institution to consult with residents and leaders in all parts of society, to collaborate with citizens' groups and local programs, to reinforce the essential right of communities to set their own priorities, and to regard health and well-being as matters that could not be judged by the medical and service professions alone.

Most of all, the document emphasized "inclusion," where "representatives from all parts of the community (citizens, business, labor, civic groups, government, health providers and purchasers) need to be at the table where the community's health needs are determined." It noted that "fundamental changes" in current health systems were necessary "to address the health and human service needs of people." The language implied, but did not state outright, that the grantmaking program would aim primarily at helping Californians whom the current system was failing. The strength of the statement was in its flexibility: It reassured directors that their values were in harmony, but it didn't insist that everyone see every issue the same way.

As other questions of definition, focus, and values arose, they often followed the pattern of the "community-based" and "systems change" discussion: The board would air points of view for a time, members would gradually come to understand one another's concerns and priorities, and eventually a statement of common understandings would emerge. More often than not, the discussion of particular grants or grantmaking priorities would focus the discussion on concrete choices, on which directors more easily found common ground. Director Mike Stephens recalls some examples this way:

> As we began to define "What is *access*?" for example, the issue became more about getting kids into health programs, like Healthy Families, rather than, say, focusing on nutrition. It wasn't an up-or-down, either-or choice, but a gathering of minds around aspects of the issue that most of us could agree on and recognized as important. Something similar happened around "What is *health status*?" and "*disparities in health*." … "*Multiculturalism*" was another issue of definitions. We struggled with "what is it?" … because it's like a unicorn: everybody knows what it looks like, but no one's ever seen it.

Like other definitional matters, these eventually led to broad agreements, and sometimes statements of principle, that enjoyed overwhelming support. But most of those issues arose and were settled in later months and years, after members had become better acquainted and more at ease together. The original resolution of the "community-based" question was important precisely because it set a pattern for how to air and settle questions of fundamental values.

"This was the way we ended up working on a lot of issues," Hirota recalls. "We didn't have to see everything the same way — that wouldn't be realistic, and you wouldn't want a board that moves in lock-step like that — but we could come to agreements about things based on everyone having values in common, and seeing what we did as an expression of those values, even if not everyone was thrilled with every single grant."

Part IV: Engineering a New Organization

Responding to community needs and benefiting people with less access to power were popular principles on the board (as they are on many foundation boards). But they had one serious disadvantage in these early months: They take a lot of time and person-power to implement. Small, poor, remote, or loosely organized communities were unlikely to produce strong proposals on short notice that could make quick use of tens of millions of dollars. It might have been easier to award $150 million in grants if most of them were seven- or eight-figure gifts to big institutions — like hospitals, universities, or government agencies — that were used to handling amounts that large. But how would the Endowment meet such a large payout obligation and still be responsive to underserved communities with often fledgling organizations?

As board member Laura S. Wiltz, then CEO of the YWCA of Greater Los Angeles, remembers it:

> We had an unrelenting payout commitment, and a commitment to keep the money close to the ground. We were unalterably opposed to a lot of large grants for research and institutions and clinical trials — which would have been an easy, even responsible way to meet our payout. But we didn't want to be that kind of foundation. The difference we wanted to make was closer to people's everyday lives right now, rather than a decade from now through a process of clinical trials or whatever.

"We were just shoveling out the money," says Ken Anderson. "That was what the requirement was. We knew we had to put out so many millions *per month*. It was just incredible." Surveying the incoming proposals, Richard Atlas believed that the payout target, if unaltered, would inescapably mean "a lot of big grants to big grantees — exactly what we had just agreed we didn't want to do."

To avoid that trap, board members came to see the solution as lying along four related tracks:

- Make as many responsive, community-based grants as the staff could prudently review and recommend;
- seek relief or deferral of the onerous payout requirement from the Attorney General, if possible;
- carve out a broad area of grantmaking — what soon became the Children's Health Initiative — to address a broad, "systemic" issue for which the Endowment could set aside a block of money to be spent over time; and
- make a few large grants to institutional, intermediary, or government grantees where the purposes had clear community benefit.

The first of these three proved by far the hardest. Not only were community proposals less numerous than they needed to be, and not only was the staff smaller than it needed to be, but most of the staff was concentrated in southern California, many hours' travel time from some parts of the state (California is larger than all but four of NATO's 18 members). The relative concentration of the staff posed two conflicting management challenges: On one hand, "community-based" philanthropy would be deeply compromised without satellite offices. Isolation and neglect, as several board members pointed out, are byproducts of geography and are powerful components of chronic ill health. Fail to respond effectively to the many regional particularities of California, and you will fail in your core mission.

On the other hand, the Endowment was not yet much of an organization. A part-time CEO was responsible for building a coherent organizational culture with a brand new staff, and establishing standard procedures and expectations among them. Several members of the board expressed fears of atomizing the staff at too early a stage, or of creating too loose a network of regional interests, with offices competing with each other for resources instead of pulling together as a single team. Atlas was less troubled by this than were some of his colleagues. "I came from an organization that operated regionally," he pointed out. "At Goldman-Sachs, we had maybe 15 offices around the country. The philosophy was that by living in the communities, you're going to have a different intimacy with the people there than if you're calling them from far away. It seemed to me that if that was true for a financial institution, how could it be less true for a foundation?"

In hindsight, the fact that the staff was not yet large or dispersed enough to beat the bushes for proposals may have been something of a blessing. At an early organizational meeting, the board had decided to review all grants over $100,000 one-by-one. Within the first four months, staff would be recommending well over $8 million in grants, the vast majority of them needing board review. The board or its program committee would therefore be meeting every week or two throughout that period, often for hours at a time, with staff necessarily on hand for the discussion.

The time commitment for this barrage of meetings was clearly unsustainable, and for several board members it quickly grew burdensome. Yet few could see an alternative. Among other problems, there were simply too few people to delegate authority *to,* and too little time to recruit more staff and design accountability procedures. So the board's Program Committee, chaired by Molly Joel Coye, former director of the state's Department of Health Services, in effect became the kind of routine grant-review panel to which other foundations usually assign mid-level managers.

On one hand, committee member James Allen Crouch, executive director of the California Rural Indian Health Board, found the flood of grant proposals "exhilarating, not exhausting. The opportunity to look closely at the state's needs, to consider so many ways of addressing them, and working with people of such varied backgrounds with so much experience — that was a real privilege. It was overwhelming and invigorating. … On the other hand, between team-building activities, program-review activities, and institutional development at the board level, it was a very frequent set of meetings."

"You couldn't keep that amount of involvement of the board in the organization," Sister Ruth observed — not only because of the drain on directors' time, but because the relationship between board and staff was proving satisfactory for neither side. As she put it:

> It had to evolve into a more mature structure of governance and operations. … We'd bring in the program directors and they'd make their presentation to the Program Committee, They'd give us so much information, and we would sit there and critique or approve or refine their recommendations. We took a long time on each one. We were a new board, taking very seriously the fiduciary responsibilities of the foundation, but we made it very difficult for the program directors. Each of us brought insight from our areas of the state and the community, from all of California. And then we often checked and re-directed the program directors. The board was taking its responsibility so seriously that it impacted the functioning of the operations people.

The dual concerns — for adequate payout and for fiduciary responsibility — were pulling in opposite directions, yet neither concern could be compromised or subordinated to the other. A board selected as conscientiously as this one wasn't likely to risk betraying its public trust by "shoveling out the money" with too little oversight. Yet the board was equally committed to meeting the state's payout requirement, for fear of provoking another confrontation with regulators and opening the door to more intrusive forms of government oversight.

That led to the second of the board's four approaches for solving the current impasse: regulatory relief. Rich Atlas remembers asking his colleagues at an early board meeting, "'Why don't we go to the regulators and see if they'll give us some flexibility under that mandate? … They would have to see that it isn't in their interest, or the interests of the people we're all serving, for us to be giving out that kind of money with so little staff and time for review.' Some of the Blue Cross directors who had transitioned onto our board [said] 'Forget it. There's no way they're going to allow you to do that.' But my feeling was: Go for it. What's the risk?"

Under California law, once the conversion of Blue Cross was complete and the two foundations had begun operating, regulatory authority had passed from the Department of Corporations to the state Attorney General. So for several weeks in the late summer of 1996, Atlas, fellow board member Sherry Hirota, and foundation counsel Lew Reid met with Deputy Attorney General James R. Schwartz to explore a rearrangement of the payout obligation. They were also careful to consult three of the protagonists in the long negotiations that had led to that requirement: Deputy Commissioner of Corporations Brian A. Thompson, Consumers Union Senior Advocate Harry Snyder; and former Corporations Commissioner Gary Mendoza (who had by then entered private law practice). "They were all at first a little dubious," Atlas recalls. But the board's express commitment to community-level philanthropy — reinforced by the presence of grassroots leader Sherry Hirota in the negotiations — seemed to reassure them that the arguments they were hearing were accurate and sincere.

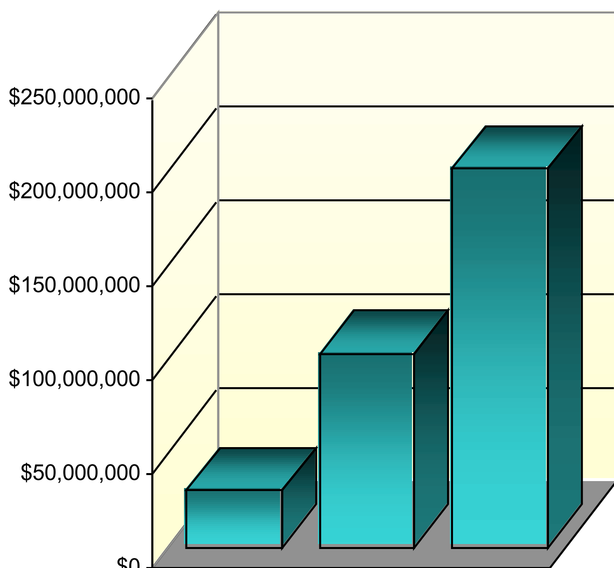
"They very quickly agreed with us," says Atlas, "that what we wanted to do made sense, and that what we were mandated to do did not make sense." By late September, Reid, Atlas, and Hirota were able to report that the advocates and regulators had agreed to spread the $150 million payout over three years, with just $30 million required in fiscal 1997, $50 million in '98, and $70 million in '99.

The last figure, unlike the first two, would be in addition to the 5 percent of total assets that the federal Tax Code required to be paid out in grants and program administration each year. As a result, the immediate disbursement burden had been considerably eased, but the next year's burden would jump markedly, and the obligation for the third year would be higher still. Because the Endowment's assets were still growing, as more and more shares of WellPoint stock were sold, and because the Endowment was still absorbing some of the payout obligations of the California HealthCare Foundation, the second year's target would be more than triple the first year's — from $30 million to $102 million — and the following year would see another near-doubling of the target, to $201 million (see Graph 1). The numbers still seemed astronomical. But by those later dates, Atlas and the board reasoned, a permanent CEO and larger staff would be in place to meet the rising challenge.

The looming future obligation made it all the more urgent to pursue the third of the board's four-part solution: designating a topic for concentrated, multi-year grantmaking to address "systemic" statewide problems. With a commitment of $50 million over five years to a new Children's Health Initiative, the board embraced several related themes that would later become crucial across the whole grantmaking portfolio: cultural diversity, access to health services, and the capacity and infrastructure of community health, including the development of effective community-based organizations.

The creation of the Children's Health Initiative in September 1996 had the immediate effect of demonstrating, with a large budgetary commitment, the kinds of issues that the new institution planned to address — issues that enjoyed broad support both on the board and among the watchdog groups. It carved out a field in which the staff and board had some expertise, and could develop more over time. And children's health was unquestionably an issue of importance to all the state's communities, even if specific needs varied from group to group. But the Initiative also provided, in the short term, a pragmatic way of helping the board meet its now-reduced payout mandate: It would be a window through which to make some large grants for strategic or "systemic" purposes that would illustrate the Endowment's values, even if they were not otherwise typical of its future grantmaking plans.

Of the 31 Children's Health grants made in the Endowment's first fiscal year, totaling nearly $11 million, and the almost $22 million awarded in 116 CHIP grants, most of the money went for large grants to government agencies or intermediaries, intended to be re-granted across the state for the benefit of children and communities, respectively. Two multi-year grants of more than $4 million each went to the state Department of Health Services for projects in nutrition and physical activity. Another $4 million grant went to the state Department of Education, for nutrition education. Large nonprofit organizations, like Sutter Health and the Tides Center, received multimillion-dollar grants for projects in lower-income and minority communities.[13]



The making of these large grants caused little celebration either within or outside of the Endowment. Some community advocates expressed concern that the agencies and intermediaries that received these grants reflected less diversity than did the Endowment board and staff. They might, some argued, be less equitable than the Endowment would be, or less deferential to community needs, in redistributing the money.

apply only partly to the first year's payout target.

Board members tried to set conditions on the grants that would limit that risk. But many were nonetheless uneasy with this approach. “When we were trying to move large amounts of money,” Sherry Hirota recalls, “we did just give large amounts to intermediaries — though you can still do that and put some community-based value in it. But we were giving money to large institutions, statewide programs, and weren’t really sure what the impact on individual communities would be or how to get impact on individual communities.” Others believed that these larger grants felt “too much like passing the buck,” in one director’s words. But as Mike Stevens explained it, describing a $10 million grant to the state of California, “there was simply no other organization we were aware of that could move that much money fastest and best.”

In any case, these larger multi-year grants proved valuable as the calendar year 1996 ended and the first fiscal year drew to a close. By February 28, 1997, the Endowment had managed to squeak just over the payout threshold with $31.9 million. Better still, future payments on these larger grants would provide something of a head start toward the following year’s much higher goal.

By then, however, the Endowment had a new CEO to succeed Richard Atlas. In November 1996, the board announced the selection of Steven Uranga McKane, a program director at the W.K. Kellogg Foundation, after a six-month national search. McKane would step into the job gradually over the next few months, while he moved with his wife from Battle Creek, Michigan.

Part V: A Search for ‘Strategy,’ and a Strategic Alliance

During the search for a CEO in mid-1996, executive recruiters contacted a senior officer of the Rockefeller Foundation to ask if she might be a candidate to lead The California Endowment. Although she ultimately did not pursue the job, the contact piqued the interest of Rockefeller’s then-president, Peter C. Goldmark. The Endowment board’s struggle to meet an enormous payout requirement, the institution’s shortage of staff, and the grueling schedule of board meetings had already become something of a legend in the national foundation world. Having heard some of the stories, Goldmark wondered whether his foundation might be helpful to its California sibling, and derive some benefits in return.

"Here's a foundation," he recalled thinking about the Endowment, "in a critical, formative stage, focused in an area where we want to do more and learn more domestically — and which is trying to figure out where to go." Might the two institutions work together, he asked, with Rockefeller contributing its experience in foundation management, administration, strategy, and governance, and the Endowment contributing its deep knowledge of California and health, two overlapping areas in which Rockefeller hoped to expand? Within a few weeks, he made an exploratory call to Ken Anderson.

The idea was far from an instant hit on either foundation's board. At the Endowment, some directors believed that trying to cement an alliance with a distant, unfamiliar institution could become a time-consuming distraction, especially in a period when staff was thin and workloads already severe. Still, enough people on both sides were intrigued by the possibilities so that a process of exploration, and eventually experimentation, began late in 1996.[14] Among the supporters on the Endowment staff and board, the idea seemed to offer two appealing opportunities: First, some saw it as a way of encouraging the Rockefeller Foundation to increase its grantmaking in California substantially. Second, Rockefeller was known as a "strategic" grantmaking institution — meaning that it made grants not mainly in response to incoming proposals, but in pursuit of deliberate, long-term strategies of social change. The foundation promoted better environmental or agricultural practices, sought cures for diseases, and tried to improve the effectiveness of labor markets for poor and low-skill workers. Its programs typically continued for many years, concentrating in a few carefully chosen places in much the way a laboratory scientist might do, proceeding from hypotheses to experiments to replication and peer review. By contrast, The California Endowment, still a mostly responsive institution, was just beginning to consider how strategic philanthropy could fit into its program plans. Several directors hoped that working with Rockefeller might accelerate that process.

In brief strokes, the difference between responsive and strategic grantmaking is that the former draws its rationale mainly from the ideas and the expressed needs of prospective grantees. The latter is a foundation's own endeavor, built on its own understanding of a problem, the best way to address it, and the most effective role the foundation can play in reaching the goal. Foundations often get their strategic ideas from outsiders, including, sometimes, from grantees. But once a foundation embraces a strategy and sets it in motion, its work typically persists in a single direction, tackling a single issue consistently, over several years. A responsive program, by contrast, may range as widely, and change as often, as do the needs of the organizations that apply for support.

Although The California Endowment started out with a primarily responsive mission, many directors believed that at least part of its grantmaking needed to be strategic as well. It would be irresponsible, they reasoned, to address the state's health problems

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[14] For a more detailed description of the strategic alliance and the deliberations leading up to it, see "Working Together" and "In League," two unpublished chronicles commissioned jointly by the Endowment and the Rockefeller Foundation.

without trying to fix flaws deeply embedded in the complex social systems that govern or influence people's health. And in any case, as Chair Ken Anderson put it, the Endowment's grant budget "was just a drop in the bucket in the continuum of health-care problems in the state. … Even with the incredible amount of millions of millions upon millions of dollars that we had, we were never going to be the solution to California's health problems." The solution, many members concluded, lay in a sustained effort to identify and repair systemic failings. And that would be a quintessentially strategic undertaking.

In any case, the more closely the staff and board listened to the ideas of community leaders, the more strategic was the message they were hearing. Local leaders understood that the Endowment could not be the answer to all their health problems. But they often argued that the Endowment could help prompt changes in state policy and programs, in the organization and funding of the health-care sector, and in the way families are treated, counseled, and served. In order to "respond" to community needs, it seemed, the Endowment would have to have a strategy beyond receiving proposals and making short-term grants. And that strategy should focus squarely on changing systems of health policymaking and service delivery.

Both kinds of grants, strategic and responsive, had their supporters. And at least a plurality of the board, if not a majority, wanted to pursue both in tandem. But what percentage of the budget should be assigned to each? The question proved complicated because, among other problems, not all members used the same criteria to classify grants in one column or the other. ("I always thought they were like waves and particles in subatomic physics," says Jim Crouch. "At some point, things are both, and the distinction has no meaning.") Although the topic continues to surface even years later, the board initially settled on an informal, Solomonic solution at an early meeting when, as Leo Estrada remembers it, acting CEO Rich Atlas "just described the foundation as 50 percent responsive and 50 percent strategic. He just said it, and no one objected. We always knew we could change it if we wanted to, but it has sort of felt right, and we've stuck to it." (The 50/50 split was not enacted in any formal way until some years later, in budget discussions for Fiscal Year 2000. But many members regarded it as a rule of thumb from their earliest days, and a few had even forgotten that it was not, at first, a matter of official policy.)

But deciding the numerical proportions was in some ways the easy task. The harder one was figuring out how the two kinds of activity would work, with what distinctions dividing them, and what points of intersection holding them together. Board member Sherry Hirota, a cautious proponent of an alliance with Rockefeller, was hoping an alliance between the two institutions would help clarify these issues. The goal, in her view, was a strategic approach to grantmaking that would not compete with, but actually enrich, the board's community-based, responsive approach:

> Responsiveness is based on the values of community and diversity. People know a lot about what will be most helpful to them, so it's healthy to have a large part of your portfolio not prescribed, but open to community direction. Yet you also want to look at some strategic approaches that really pursue tough, complicated problems over a longer period of time. Perhaps you do that by gluing together [responsive] initiatives to get at some root causes. But the danger is, it can be like an academic environment, where you can fall overly in love with your own ideas, and become presumptuous. So having a combination, a little balance in approach, is helpful. You don't want to be responsive to the point where nothing has any kind of broader view, nor so strategic that there's no flexibility to seize opportunities that are outside your strategy.

Although most Endowment directors felt no need for an outside institution to tutor them in the strategic issues facing California's health systems, several board members did believe that it would be helpful to learn from Rockefeller the specific challenges of strategic *philanthropy* — particularly its implications for staffing, management, governance, and evaluation. A strategic program entails a process of advance thinking, analysis, planning, and deliberation, at both the board and the staff level, that is more complicated than the process required for responsive grants. Once a strategic program is set up and starts to operate, it is much harder to make changes later. For a board with barely a year's experience in institutional philanthropy, the challenges and pitfalls of strategic grantmaking seemed to call for outside guidance. Rockefeller, with a century of experience under its belt, might be a useful source of that.

Among members' greatest concerns about strategic philanthropy was how to ensure that grants would stay, as Laura Wiltz had put it, "close to the ground," that is, produce tangible benefits for California's poor and uninsured residents, and not become "a lot of large grants for research and institutions and clinical trials." Wiltz, Hirota, and others believed there might be some benefit in blending Rockefeller's experience in designing and managing strategic programs with The California Endowment's keen awareness of the state's barriers to health and health care. Goldmark thought so too.

Fresh from the Kellogg Foundation, also a strategically inclined institution, newly appointed CEO Steven Uranga McKane was generally receptive to the idea of a strategic program, and was willing to explore the possibility of a strategic alliance with Rockefeller. During his transition to California, he met with Goldmark briefly in late November, and the two boards then formed a joint committee of three members each, which met with the two CEOs at the end of 1996. The trustees found common ground fairly quickly, but at the staff level, the two foundations' courtship was brittle. Many months went by with little progress in the deliberations.

Meanwhile, members of the board's Program Committee were beginning to compile their own list of potential areas of strategic investment, which Molly Coye presented to the full board in April 1997. These included primary care, self-care, rural health, and multicultural health, among other things. One item on the committee's list, the health consequences of welfare reform, was already becoming the subject of concentrated staff work, after the board created a $1 million fund in February 1997. This list from the Program Committee would form, along with the already existing program in children's health, the foundation's first step toward a strategic agenda.

A seventh area, the link between employment and health, was emerging from staff- and board-level talks with Rockefeller. At first, the topic seemed to spring mainly from the coincidence of Rockefeller's longstanding interest in workforce development and the Endowment's commitment to health. The two issues were plainly related in important ways, but as discussions with Rockefeller languished, the prospects for an employment-and-health strategy remained on hold.

Almost as soon as he was chosen as CEO, Uranga McKane began forming his own list of strategic options, different from those of the Program Committee or the Rockefeller negotiations. In November 1996, as he was moving to California from Battle Creek, the staff had held nearly two dozen community meetings around the state seeking ideas for both responsive and strategic work. These meetings, followed by several months of work with a strategic planning consultant, led to the selection of four program areas, more strategically targeted than either CHIP or the Children's Health Initiative had been. The list closely mirrored the mission language in the Endowment's Articles of Incorporation, and Uranga McKane explained to the board in mid-1998 that each program area would eventually be further narrowed and refined over time, with increasingly explicit strategies and goals for each. As approved at a board retreat in June 1998, the list consisted of

- Improving *access* to care for underserved populations;
- Promoting the *health and well-being* of all Californians;
- *Community building and innovation;* and
- *Multicultural health*.

Each of the three concurrent discussions about strategy — by the staff, by the board's Program Committee, and between the Endowment and Rockefeller — had strengths and supporters, but they weren't leading in a common direction. The Program Committee's list of possible investment targets was perhaps the most tentative of the three. It was not, as Sherry Hirota remembers it, the product of any careful analysis, but "really just a set of lowest common denominators. It was like a straw poll, in which we all voted for things we thought were important, and the ones with the most votes made the list. It was fine as far as it went, but it certainly wasn't anything you'd call strategic." The staff list was better defined, had clear roots in the Endowment's founding mission and early board discussions, and had clear implications for "systems change." But most board members

still believed that it did not achieve the precision or purposefulness of a real strategy. The Rockefeller discussions were in some ways the most precise of all, based on a clearer articulation of means and ends, and backed up with some research to support the component hypotheses. But they focused on just one, narrow aspect of health — its relationship to employment and socioeconomic status — and in any case, the discussions still seemed nowhere near a conclusion.

The various searches for a strategic grantmaking program weren't just based on a belief that a good foundation should have a strategy. There were practical advantages to such a program as well. As the Endowment's second fiscal year progressed, the pace of grantmaking had accelerated a bit, but the deferred payout requirement still loomed forbiddingly. Workload pressures on both board and staff were unrelenting. Several board members hoped that adopting a strategic agenda would make it possible to solicit a larger number of similar proposals that could be reviewed and evaluated by a single set of criteria. That would make for a more efficient use of staff time.

Just as important, as Coye explained in her presentation of the Program Committee's proposed investment targets, adopting a strategy would mean that the general purposes for most grants could be approved by the board in bulk, leaving the staff with the responsibility for making individual grants in pursuit of the approved strategy. "The role of the board," Coye proposed, would then "move increasingly to policy discussion, and project consideration will be left largely as a staff function."

The board had already taken one major step away from its exhausting grants-review regimen, toward the end of fiscal 1997. Once a full-time CEO was in place, the board delegated authority to him for most grants up to $1 million, subject to a strict internal staff-review process. But this provided less relief than many board members had hoped. For one thing, the unforgiving payout burden meant that many grants would still be larger than $1 million, so the Program Committee's docket remained heavy. Some board members who were not on the committee felt uneasy approving very large grants without having participated in the review and discussion, so full board meetings sometimes involved a re-review of the committee's recommendations.

As Uranga McKane began to assemble his senior management team, the roster of recommended grants increasingly reflected the new managers' priorities and methods. Among these was an increasing reliance on grants to intermediary or re-granting organizations — in effect, "wholesale" grants to regional or statewide organizations that would in turn "retail" the support to smaller organizations and particular communities. This approach, which made some board members uneasy, caused the Program Committee to scrutinize some grants even more closely, to ensure that the ultimate purposes would be fully "community-based" — that is, that the grant conditions would ensure real value to the end grantees in each community. Some smaller grants in the CHIP program also came up for board review. In general, the workload for directors, though diminished, was

still severe and, for many members of the board, still unsustainable. Moving toward a strategic program might be helping somewhat, but not enough.

There was one other factor driving many board members to seek a defined strategy for the Endowment's program: "Health" was a dangerously broad concept that could, if stretched too far, apply to almost anything. The Rockefeller discussions had already raised the issue of employment — which, to some members, sounded like a far cry from a philanthropic mission to support health. A proposal for a large grant for farmworker housing was also coming under discussion in 1998, to which at least one board member reacted by asking "What's that got to do with health care? … We're a health care foundation, not a housing and transportation one. People's housing is related to their health, but by that standard, what *isn't* related to health?"

In short, "strategy" meant different things, and served different purposes, depending on who was pursuing it. For some staff and board members, a strategy was important as a route to achieving real impact — a way of creating a fundamentally different environment or system for health and health care in California. For others, it was a means of greater operational efficiency. For still others, it was a way of avoiding "mission creep" — of keeping the Endowment close to a clear set of purposes whose relevance to health would stand up to close scrutiny. And many people saw virtue in more than one of these positions. When the board approved the staff's four-point strategy in 1998, many members viewed it as a tentative step — not so much believing that this would provide the strategic direction the Endowment needed, but accepting it as the readiest and most focused of the alternatives on hand.

Whatever its limitations, the list of program areas gave staff a mandate to move ahead, and a feeling that their work could now be shaped by clear purposes. The expressed goals were certainly more specific than either CHIP or the Child Health Initiative had been, and thus represented progress. So did the opening of two field offices, in San Francisco and Sacramento, the first steps toward an eventual network of regional offices around the state. Many felt, as one staff member expressed it, that "the feeling of movement was reassuring, even if we still weren't exactly sure we were moving in the right direction."

Part VI: Reassessments

Despite this “feeling of movement,” by the end of the second fiscal year, in February 1998, alarm signals were beginning to sound on three related fronts. First, the list of grants was only slightly more “community-based” than in the previous year. The roster in 1998 still included a series of $5 million grants to major institutions like the University of California–Davis and the California Dental Association, a $7 million grant to the Rural Community Assistance Corporation and more than $4 million for the Nonprofit Resource Center. All of these grants were for purposes completely consistent with the Endowment’s mission, and most of them resulted in direct aid to community-based projects in low-income and underserved areas. The Rural Community Assistance Corporation grant, for example, supported the development of nonprofit health facilities in isolated and virtually unserved communities. The UC-Davis grant aimed at bringing underrepresented minorities into health occupations and foster more service in rural and poor areas.

The problem was not with the purpose of the grants, but with their detached or arm’s-length nature. “We had decided early on that we wanted to do grantmaking on a community-by-community level,” says Rich Atlas. “Giving the money to others, to re-grant to underserved populations isn’t bad. But it isn’t what we wanted to do. We felt — I think every board member felt — that the further away we were from the people in the communities, the less effective we would be.” Yet senior program staff seemed inclined to rely on more grants of this type, not fewer. The evolving strategy from top officers called for a series of relationships with large intermediaries that would grow over time.

To be sure, some of the grants to intermediaries were expressly responsive in intent. Half-million dollar grants to Indian Dispute Resolution Services and VOCE (Valley Organized in Community Efforts) promoted community organizing and local problem-solving in a number of very low-income communities. Even so, these were still relatively large, strong, regional grantees, responsible for “retailing” the Endowment’s grant to smaller sub-groups. While the Endowment made some 200 grants in 1998, the great majority of them smaller than these and involving smaller grantees, it was clear that the real payout burden was being borne by a handful of large institutional and “wholesale” grants — the very pattern to which Laura Wiltz had described the board as “unalterably opposed.”

And yet despite the presence of these larger grants, the second major concern at the end of Fiscal 1998 was that the Endowment had missed its revised payout target by nearly $2 million. Although the shortfall was quickly made up with additional disbursements in the first weeks of the new fiscal year, it was not a good omen. More than $17 million that had been counted toward the 1998 payout was not actually distributed in that fiscal year; it

had merely been set aside for future years' payments under multi-year grants. That was a permissible accounting device, but it meant that these payments could not be counted toward the following years' payout requirements, when they would actually be disbursed. In effect, the Endowment had tried to meet this year's target by borrowing from the next few years' grants. Meanwhile, the new target for the coming year would be almost 100 percent greater than in the year just passed. Combining the normal payout requirements of the federal Tax Code, the $70 million remaining from the state-imposed mandate, and additional grantmaking to cover the California HealthCare Foundation's unmet obligations, it would rise above $200 million. Among other concerns, that would surely call for even more "wholesale" grantmaking than in 1998.

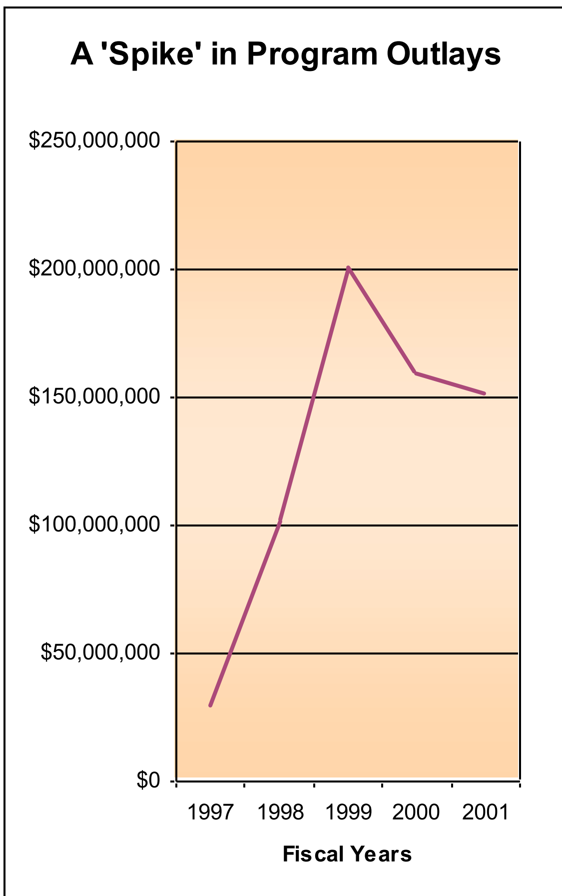
The huge jump in outlays for Fiscal Year 1999 raised another problem as well. It would create an awkward one-time spike in the Endowment's grants: If the target was achieved, the state's specially imposed payout obligation would then be fully satisfied. From then on, the Endowment would return to meeting only its routine requirements: the IRS mandate of 5 percent of the previous year's assets, plus a portion of the HealthCare Foundation's grantmaking obligation. That would mean that the Endowment's payout responsibility would rise sharply in 1999 with the final installment of the state mandate, and then plunge back down in 2000 — creating, in effect, the possibility of a sudden retrenchment in what should normally be a steady flow of program dollars (see Graph 2).

All these considerations made it clear, by the fall of 1998, that the mandate would have to be revised once again. Counsel Lew Reid and a deputation of board members therefore began preparing an appeal for further relief to Deputy Attorney General Peter K. Shack, who had by then taken over for James Schwartz. They proposed that the last $70 million of the original $150 million obligation be expended not all at once, but spread over three more years: $20 million each in Fiscal 1999 and 2000, and $30 million in Fiscal 2001. By that time, the steady growth in the Endowment's assets would make for a smooth, gradual increase in grantmaking, so that future years' grants should equal or exceed the amount distributed in 2001. Under this proposal, the payout target for the coming year, Fiscal 1999, would then be reduced by 25 percent to a more manageable $150 million. The Attorney General approved the amendment toward the end of calendar year 1998.

The third sign of trouble was only starting to become obvious to board members in the spring of 1998: Divisions and disaffection among staff members were growing disruptive. Some board members were hearing rumors from acquaintances around the state about low staff morale and factionalism at the Endowment. Others were hearing grievances directly from staff members, a breach of protocol that made some members uneasy. To some extent, this may have been a normal side effect of a new management team imposing new rules, values, and procedures on a staff that had grown accustomed to a different routine. A staff reorganization had occurred, with some departures, in March 1998, which may have contributed to internal uneasiness. Whatever the cause, as the new fiscal year proceeded from spring to summer of 1998 at least some board members were

becoming concerned about the ability of the staff to meet its growing responsibilities as an effective team.

To be sure, not all signs were ominous. One issue that had seemed unsettled in the spring of 1998 actually grew clearer and less contentious in the coming months: the question of strategy — specifically how to combine strategic and responsive grantmaking activities into a coherent program. Having come to an early understanding that up to half the grant portfolio should be strategic, members never felt they had decided — or in some cases, even clearly conceived — how the two halves would work together. For several board members, at least, a breakthrough on that question occurred at a board retreat in September 1998, held jointly with the Rockefeller Foundation's trustees at the newly opened J. Paul Getty Museum in Los Angeles.



In a series of meetings and panel presentations at the Getty, with no staff present, the two boards found themselves discussing just what makes a program "strategic." One panel, for example, offered suggestions for how to keep strategic grants from becoming so rigid or assertive that they strong-arm grantees into implementing programs they don't consider helpful. Other presentations described the role of science and research in strategic grantmaking, and how to integrate scholarship into an activist program without giving out millions of dollars in research grants. As a result of that meeting, several Endowment directors came to feel more strongly than ever that a purposeful, clear program — something genuinely "strategic" — could still incorporate significant grantee leadership, with ideas that genuinely arose from the community level. A strategic program could draw insight from responsive grantmaking, and experience with responsive grants could lay the foundation for a strategic plan. Most members concluded that the Endowment did not yet have the elements for such a program, but they began to see how it might be constructed.

Despite an invigorating feeling of progress flowing from the meeting at the Getty, the board found itself, in a matter of weeks, re-confronting another old challenge that it had thought was settled: that of executive leadership. In September 1998, after long discussions with the board, Steven Uranga McKane resigned as CEO, leaving the Endowment once again in search of a leader.

Unprepared for a transition, the board instantly had to meet three needs: an immediate stand-in as CEO to manage the staff during the next few weeks, a temporary chief executive who could run the Endowment during a national search that would surely last several months, and eventually a permanent CEO. As a first step, Leroy Barnes, who had succeeded Ken Anderson as chair, found himself doing exactly what his predecessor had done just two years before: canvassing his colleagues to see if someone could step into the CEO's office temporarily.

One by one, members responded that other commitments — including full-time jobs — made it impossible for them to take on so demanding a responsibility, even for a short time. During the canvassing of members, Barnes called Endowment counsel Lew Reid off to one side. Some members, he said, thought that Reid would be a good candidate. Among other qualifications, he knew the Endowment's business in detail and enjoyed the full trust of both the staff and the board. Could he do it for three weeks, until the board could find an acting CEO?

Reid answered, "If it's only for three weeks, I could stand on my head for that long." Pleased to have the most immediate problem solved, Barnes returned to the meeting and informed the board that the job was filled, if only for the moment. Barnes and Reid then notified the staff that their lives were about to change yet again.

Part VII: 'We Ought to Have Fun'

On the next Monday, October 1, 1998, Reid gathered the staff in the Woodland Hills office and told them there were four points that he considered essential from this day on. The first was teamwork. The factionalism and internal rivalries had to end, and anyone who felt unable to work closely and cooperatively with the others had better leave. The second was service. "It was clear to me," Reid recalled later, "that people had become so focused on their internal status that they had forgotten that the only important thing about the Endowment was the work our grantees performed in the community."

> … We'd had a lot of concerns coming in about how unresponsive we were and how long it took for grantees to get their money. So I told the program, finance, and grants administration people to give me a flow chart of what happens between the time someone calls and asks how to apply for a grant and the day when they get a check. Eventually, we restructured

> the whole way we processed grants, and took many weeks out of the process. … The goal was that everybody should see themselves as working in a *service* business, at the service of the grantees. If we're not meeting their needs, we're not doing anything valuable. That service attitude had to pervade.

The third item was less inspiring but painfully familiar: payout. Once again, the staff was facing a giant disbursement requirement and, with five months left in the fiscal year, very little of it had yet been satisfied. (At this point, the Attorney General had not yet approved the second restructuring that would ultimately ease some of that burden.) In a board meeting the previous August, senior staff had presented ideas for a series of seven- and eight-figure grants to large intermediary organizations, similar to those that had been used to meet earlier payout targets. But these were still in the planning stage, and many staff members were struggling to put substance on what had, as of August, been merely general ideas. Because some board members were uneasy with such grants — and would surely want detailed evidence that the result would be direct service to poor and underserved communities — staff knew their work would be closely scrutinized. Yet in several cases they had less information than they felt they needed. In one area, a $50 million grant was to be presented to the board, but no actual grantee had even been identified. In some cases they believed the prospective grant would not withstand scrutiny. Reid's instruction to the staff was: "We'll divide the work. You look at these grants as if you weren't under any payout pressure, and just weigh them on the merits. Recommend only the ones that truly measure up. Let me worry about meeting the payout requirements."

Reid's fourth and final point, which several staff members considered farfetched at the time, was: "We ought to have fun. Giving away money for worthwhile things should be fun."

Unfortunately, for Reid, the fun could not begin until he fulfilled the promise he had just made under Item No. 3: figuring out how to meet the payout requirement responsibly. Although he expected to be in the job only three weeks, that was a crucial period of time, with just 21 weeks left until a $200 million payout reckoning would come due. One part of the solution was already in the works: the request to the Attorney General to spread the remainder of the state mandate over a further three years. The argument was a strong one, and serious opposition seemed unlikely, but the answer would not be definite for another two months. And in any case, it would bring the target down only to $150 million. To meet the remaining $140 million of the target, Reid started work on four simultaneous tracks:

- Several of the grants made in previous years were actually multi-year commitments, with additional amounts scheduled to be paid in the future. Some

of these future amounts could be paid now, at least to larger organizations that could legally accept such a large lump-sum payment and manage it responsibly.

- The California HealthCare Foundation was by now well established and was able to commit to a slightly higher amount of annual grantmaking. That reduced the amount of additional grantmaking that the Endowment would have to do to offset the HealthCare Foundation's payout obligations.
- The CHIP program had been discontinued several months before, in May 1998, and a new responsive program, called Communities First, had just been announced to take its place. That program could be activated immediately, and proposals solicited for disbursement in the next few months.
- Some of the large intermediary grants on which staff were working were strong and highly likely to be approved. They could, if designed properly, satisfy the board's expectations while meeting a big percentage of the payout target. One especially large grant was among the strongest: what became a $31 million multi-year commitment, comprising both grant and loan funds, to the Rural Community Assistance Corporation to improve health, safety, and living conditions in farmworker housing. A $10 million grant to the Tides Foundation, to help community clinics improve their information technology and management, was also enthusiastically received. Both of these grants launched initiatives that have since become central to the Endowment's program.

Most of these four tracks would last far more than the three weeks of Reid's planned tenure. At first, he expected simply to set the processes in motion and then, when he returned to the role of foundation counsel, continue working on the regulatory approvals and other technical matters while an interim chief executive took over. But that is not how matters turned out.

As soon as Reid accepted the role of short-term interim CEO, Chair Leroy Barnes appointed two committees to come up with an acting and a permanent successor, respectively. Peter Pennekamp chaired the search for a temporary leader, and Laura Wiltz the longer search for a permanent replacement. Some important questions — like whether the acting CEO could be considered for the permanent job or not — took time and deliberation to resolve. (The eventual answer was No.) Nor did it prove at all easy to find someone who was available for such a short-term assignment and who also met the standards of expertise, program sensitivity, and management acuity that most directors wanted. It soon became clear that the only person who satisfied all these requirements and was available immediately was the person already on the job: Lew Reid.

Fortunately, by the end of October, Reid felt he was rounding the corner on the immediate administrative problems, and was starting to enjoy the challenge. He no longer felt that staff members regarded him warily as an outsider ("the corporate lawyer imposed on them from outside") but as an ally. He agreed to extend his tenure to the end of the fiscal year, February 1999, by which time a permanent CEO was expected to be in place.

Using all the devices on his list, Reid and the staff met the payout target, with roughly $6.5 million to spare. But if the goal was "to have fun," there was still a long way to go. Year after year of scrambling to meet payout requirements, which were constantly increasing, and the inability to make more grants to smaller, grassroots institutions, as both the staff and board preferred, were wearing everyone down. Even as internal divisions were beginning to heal (and most of the chronically discontented were leaving), workload pressures were still keeping staff on edge, unsatisfied, and exhausted.

With the clock about to start on another year's payout challenge, and with the board and staff both growing impatient with the impromptu grantmaking of the past, Reid was determined that the new fiscal year would be governed by a complete, written program plan — a document "that would say what we were trying to accomplish, what grants we expected to make, and for what purposes. We'd never had anything like that."

Technically, that should have been someone else's concern. It was now February 1999, and Reid had reached what was supposed to be the end of his extended run as interim CEO. But still there was no replacement in sight. Pennekamp's committee had been disbanded, and Laura Wiltz's group had grown dissatisfied with its initial search firm and decided to start over. Reid agreed to another six months, and got to work on what would become the Endowment's first complete program plan, for the fiscal year ending in February 2000.

The result, completed two months later, gave the board its first look at a whole year's grantmaking condensed into a few pages: an overview of philanthropic goals, the amount of money apportioned to each goal, the types of grants to be made in each area, and the staff members responsible for coordinating the various lines of work. It included $30 million for the new responsive program Communities First, and a total of $81 million allocated to the four program areas that Uranga McKane had outlined earlier in the year: access to care ($30 million), health and well-being ($22 million), multicultural health ($17 million), and community building and innovation ($12 million). A final category ($25.5 million) provided for a short list of special projects, including partnerships with other health foundations, small discretionary grants, and whatever activity might eventually emerge from the negotiations with Rockefeller, which were still under way.

The plan built on the best of the previous year's work: Under "access," it envisioned a further $10 million to advance the community clinics initiative, and under "health and well being," another $10 million to promote community coalitions in public health. It also launched several new initiatives that have since proved their value: Under "multicultural health," it began a program on "cultural competency" in the health-care workforce, with an initial $5 million to promote a more culturally diverse population pursuing health careers and to train current health-care workers in issues of cultural sensitivity. And under "community innovations," the plan set aside a total of $12 million

to support community foundations and new or alternative philanthropies that could, with help and additional resources, advance the health efforts of small, poor, or remote community groups around the state.

The order and precision in the plan, and the staff's enthusiasm for it, came as welcome relief to the board. It seemed to Peter Pennekamp that the staff "had gone from literally imploding to thinking, organizing, getting the money out, identifying issues. We went from being a hands-on board, trying to be the CEO, to being a policy board in less than a year. That was because of Lew's excellent leadership and a very good staff."

For all its welcome detail and clarity, the program plan eased only a little of the pressure brought about by the annual race to meet payout targets. In fact, the plan explicitly warned that "TCE faces a payout this year that, for our asset and operating size, is incomparable in the field. Our FY 2000 funding will be roughly twice the amount of this year's combined payout of California's leading health foundations." Yet these other foundations, the plan noted, were not burdened with massive payout requirements in their formative years, but instead had time to "develop and implement many thoughtful health projects that have the potential for important impacts on TCE's target populations." For that reason, a recurrent theme in the plan was partnership with other funders — besides the $12 million for community foundations and alternative philanthropy, there was also another $15 million specifically for funding collaborations with California's other health foundations. Sharing the burden of assessing potential grantees, reviewing proposals, and designing and administering grants, Reid reasoned, would allow the Endowment to increase its output without expending nearly as much effort per dollar distributed.

On one hand, this exercise was a breakthrough: For the first time, the plan made it clear, early in the fiscal year, who would have to do what, by when, in what amounts, to meet the payout target and produce grants that reflected the board's ambitions and values. On the other hand, it had taken time to write the plan — and the board did not meet to review it until May 1999, by which time a quarter of the fiscal year was gone. Meanwhile, thanks to the previous year's extension of the state's special mandate, the Fiscal 2000 payout target was now almost $30 million higher than it had been in 1999.

By the following February, when the fiscal year was over, the Endowment would once again manage to squeeze past the $179 million target with grants that conformed closely with the program plan. But it had not been a smooth ride.

All the same, it would be hard to overstate the importance of the 1999-2000 plan, and of a follow-up "Performance Review," issued at the end of the fiscal year, which compared the year's grantmaking with the goals laid out in the original document. The two papers provided the four-year-old Endowment with its first step-by-step exercise in mapping out a program, following the map, and then promptly accounting for its hits and misses. This was still a far cry from the multi-year strategic plan that the board had been seeking since

its earliest months, but it was an indispensable first step: It showed how grantmaking targets could be set, with staff and budgets realistically assigned to each. In the course of presenting the plan, Reid sought and received official guidance on policies like the maximum percentage of overhead that may be included in grants, or when to consider requests for capital contributions or direct services — matters that had previously been handled case-by-case, if at all. Without first conquering those challenges, a longer-range strategic plan would have been merely an exercise in theory, as earlier attempts had been.

In any case, Reid felt duty-bound not to attempt a multi-year plan, because he would not be a multi-year CEO. "I wanted to be careful," he said, "not to make commitments or set things in motion that would constrain my successor." So the planning exercise of Fiscal Year 2000 was fairly conservative, adhering to established program goals and concentrating on the production of quality grants within those guidelines. Yet it was such a hit with the board and was so helpful in organizing and focusing staff effort that there was broad support for repeating, and in fact deepening, the exercise in 2001.

Another innovation in Fiscal Year 2000 also proved important as a step toward later strategic planning. After four years of grantmaking — some of it conducted under intense time pressure, and with lingering uncertainties among many board members — Reid felt it essential that the board should start to see firsthand what it was supporting. Starting in Los Angeles in May 1999, the board began combining meetings with site visits to grantees. In that first foray, members visited an organization that trains and employs young gang members, a supportive housing program for homeless people with chemical addictions, and a community clinic working amid the shifting demographics of South Central L.A.[15] Three months later, in connection with the board's annual retreat, the idea expanded to include spending one or two days in parts of the state that were integral to past or planned grants. The first such trip was to rural Humboldt County, where a half-day journey up the Klamath River with Native American residents was combined with panel discussion on rural Indian health issues. These activities complemented a discussion the next day of a proposed California Indian Health Strategy for the coming year. Later board meetings took the directors to housing developments for homeless people in Sacramento, farmworker communities in the Central Valley, and other centers of concentrated grantmaking.

The visits were especially valuable for board members who hadn't worked in community organizations or small nonprofits, and who had only a general idea of how Endowment grants fit into the daily realities of smaller grantees. Yet even directors who had worked in such organizations often found these visits revealing, because they provided an

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[15] The site tour in Los Angeles culminated in a dinner hosted by Laura Wiltz and attended by local grantees. At the dinner, the Endowment presented awards to both Gary Mendoza and Leonard Schaeffer, who consequently shared the podium and, at other points in the evening, opportunities for conversation. It seemed, to some observers, a harmonious end to years of tension between the two chief antagonists in the conversion battle.

opportunity to learn about the health needs of different, often unfamiliar, parts of the state.

“Visiting the grantee organizations,” Mike Stephens said, “you saw that these were people making a real difference, and you couldn’t help feeling good about that, no matter what other [grantmaking] preferences you may have had.” Without the visits, he added, “the questions become more abstract, and people may come to take stronger positions along policy or philosophical issues that aren’t rooted in a firsthand experience of real activity for real people. If you keep your focus on what’s actually being done with the money, you don’t find yourself drifting into fine philosophical divisions that don’t really amount to all that much in practice.”

Part VIII: Aligning ‘Rubik’s Cube’

By the time of the board’s first extended site visit, in August 1999, Lew Reid’s tenure as acting CEO was once again expiring. And as before, the search for a permanent successor was nowhere near completion. Laura Wiltz’s search committee had come close to nominating a candidate in July, but that selection came apart when the candidate declined to relocate from northern California to be near the Endowment’s Woodland Hills offices. The selection had caused some discussion among board members about whether the offices might be moved (as in fact the California HealthCare Foundation headquarters had been). But fearing further disruptions for the staff, the board chose to keep the main office where it was. With the Endowment and its candidate for CEO determined to stay in opposite parts of the state, the search committee found itself starting over once again.

Yet far from seeing this as a setback, some members argue strongly, in retrospect, that the care and deliberation that went into the CEO search was a blessing to the organization and the board. Not only did it eventually result in a good decision, but the opportunity to think carefully about what the group wanted in a leader — and by extension, the kind of institution and program it wanted to build — drew the board more closely together and gave them, for the first time, an opportunity to think through their ambitions on the basis of some experience, and without the rush of artificial deadlines.

Leo Estrada saw these months as “the time when we finally created the Endowment in a philosophical way, in terms of values. You had to balance the pragmatic and the feasible with what we wanted to become and be known for.” To Peter Pennekamp, the executive transition was “a gift. It pulled people together, established leadership, and from there we

were able to look at each other as real equals from diverse backgrounds, and to form a philosophy as a way of looking at our overarching responsibilities. It was an awful and beautiful moment."

Given the current state of the search, and the pace at which it was proceeding, it seemed pointless to set yet another short period for Reid to serve as acting CEO. After all these months, the title "acting" was causing some confusion around the state, and neither Wiltz nor Chair Leroy Barnes considered it realistic to set another arbitrary ending date for his service. So with the executive search process about to resume, Lew Reid became CEO for an indefinite period, and without a modifier before his title.[16]

Among other things, the open-ended appointment strengthened Reid's mandate, and provided a head start, for the creation of a second program plan to govern the next fiscal year, 2000-2001. It was still only August, which meant that the plan could actually be submitted for the board's approval before the new fiscal year began. Staff would then have a full 12 months to carry out the approved activity. Further, the board had encouraged Reid to re-examine the program targets originally formulated by his predecessor in 1998, around which the 1999-2000 plan had been organized. That would take some time, but it would provide an opportunity to re-focus the program, strengthen the logical connections among its parts, and responsibly wind down activities that weren't closely related to the newly focused goals.

Rethinking the program priorities and their relationship to an overall plan was yet another step toward the strategic framework that the board had long been seeking. Without attempting to devise a strategy that would bind his successor, Reid nonetheless now had the time and authority to sort through the many strategic threads that had been woven, not always smoothly, through nearly half a billion dollars in past grant commitments. He would organize the program around the strongest of these — as measured by the board's expressed support for them, the staff's (and other experts') assessment of their potential impact, and their relevance to the Endowment's mission. The program would thus be made more coherent and focused, while still leaving questions of longer-range direction to the permanent CEO.

The sorting and clarifying process took many months. Reid held strategic discussions individually with directors and retained a consultant to survey more than 50 experts and opinion leaders in health to determine what they considered the most critical issues for the future of California. Research papers were rapidly prepared on the leading topics. From that information and a summary of past grantmaking activity, a group of senior staff members compiled and gradually winnowed a list of perhaps a dozen possible focus

[16] Reid was not himself a candidate for the permanent position. He had been in a gradual retirement from his law practice for some years and looked forward to a full-time retirement in Sonoma County. Although some members of the board and staff had encouraged him to apply (and board members were willing to reconsider whether an acting CEO could be made permanent), Reid ultimately chose not to do so.

areas. Reid traveled to San Diego to review the results of this work with director Robert K. Ross, the head of the county Department of Health and Human Services who was then chair of the board's Program Committee. Then came what Reid describes as "the hardest part of the challenge, which we never really resolved": creating a logical structure to link the mission and the program focus.

The Endowment's mission, as simplified in 1996, focused on expanding access to care for the underserved and improving the health status of all Californians. With a long list of strong programs — well supported by board members and experts, clearly linked to health and health policy, rooted in past grants, needed and supported by community leaders — how was the staff to zero in on two or three key themes that best serve the mission and most strongly reinforce one another? "How do you get an analytical framework or matrix for all these things," Reid asked over and over. "How do you fit the Rubik's Cube together into a single, solid, clear shape? Which of these address health status, and which ones access? Is multiculturalism a part of the access challenge, or part of health status, or is it really a separate line of work that we have embraced alongside or cutting across the other two?"

In the end, he says, "I came to believe there was no one right answer to the puzzle. Guided by our mission, we needed to focus on a few of the most critical health issues, ones where the need was greatest and we had the experience and capacity to achieve something positive. The solution lay in pragmatism, not logic." As the plan began to emerge in draft after draft in the winter of 1999-2000, the "Rubik's Cube" came to consist of four main blocks: responsive grantmaking, which would consume roughly half the $201 million grant budget, and three levels of strategic grantmaking. The first level, totaling $65 million, represented programs ready for rapid implementation in the coming fiscal year. These built on work already begun in three areas that were poised for expansion: community clinics, diversifying the health care workforce, and reducing disparities in health across California. The second level, at $12 million, comprised newer programs that could be developed or launched in the coming year — including programs in mental health, aging, and at-risk children and youth. The third level was just exploratory, involving $6 million for further research and experimentation in areas where the Endowment had little experience but high interest: quality of care, and technology and health.

An additional $16 million was set aside for continued payments on earlier grant commitments, including those for farmworker housing and for community organizing and capacity-building. And, in a sort of milestone, $4 million would go toward implementing the long-awaited partnership with the Rockefeller Foundation: a program addressing the interaction of health and employment, named California Works for Better Health. If the spending goals were met, the total of all categories would exceed the coming year's payout target by nearly 12 percent. (As Graph 3 shows, actual payout

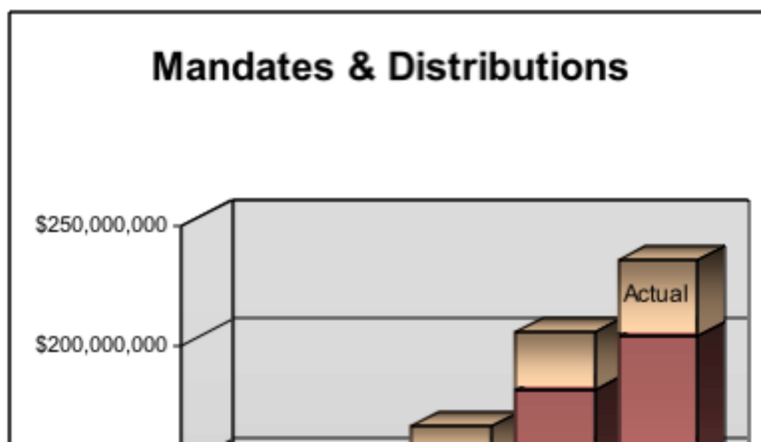
exceeded the plan by almost 16 percent — the first year in which the target had been reached comfortably and with time to spare.)

The final draft of the plan was circulated to directors in time for the start of the new fiscal year on March 1, 2000, and was approved with minor amendments at the board's annual meeting the following month.

Two other priorities occupied Reid's attention in what would, at last, become his final months as CEO. The first was the continuation of the Endowment's physical expansion into other parts of California. Although staff had been working in other parts of the state by the time Reid started as acting CEO — including people in San Francisco, San Diego, Sacramento, and San Luis Obispo — some of these were working from home or in temporary quarters. Communication among them was imperfect at best, so meetings or interoffice consultation meant long conference calls or frequent travel or both — especially during a period of management changes and internal tensions. Some board members had been uneasy about the use of satellite offices in the Endowment's first few years, while staff were still new and not fully organized; a few of them found these rudimentary arrangements all the more unsettling. Arguably the whole situation was unsurprising in an organization so young, especially when extraordinary program pressures had tended to push organizational logistics to the back burner. Still, the Endowment needed a functioning statewide network of well-connected offices, sooner rather than later.

During Reid's roughly two-year tenure, staff opened offices in San Diego and Fresno, leased permanent space in San Francisco (sharing offices with the Rockefeller Foundation), and formalized a still-temporary arrangement in Sacramento. Perhaps more significant, the five offices were linked by teleconferencing, to reduce the burden of travel and to make face-to-face conversation an easier alternative to the telephone or e-mail. Reid divided the state into two regions, with a program manager for each, and reduced the number of times regional officers had to attend grant-review meetings in Woodland Hills.

The combined effect was not just a smoother-functioning management system, but for people who had been skeptical about regional offices, it was a demonstration that regionalization could work and would strengthen the organization. "We solved it by just doing it," Reid said. "People were nervous about it until they saw it in action. And then it just ceased to be an issue."



The second non-program priority was external communications, an area in which the Endowment had previously been much more conservative than some board

members would have liked. An earlier communications director, who left the staff shortly after Reid arrived, had been given little scope for seeking press coverage or otherwise publicizing the work of the Endowment or its grantees. One statistic illustrates the point: In its first two years, The California Endowment had issued fewer than a dozen news releases, nearly all of them announcing executive or board appointments. Only three had anything to do with grantmaking. In Reid's first year, releases appeared at a rate of nearly four a month, the great majority of them describing grants and grantee achievements. Even internal communications — among staff, between staff and board, or between the Endowment and grantees — had received little attention in the past, but these were now elevated to a management priority.

Some directors saw a virtue in the relative silence of the early days, a kind of understatement and institutional modesty uncommon in philanthropy. Those were in the minority, however. Others felt, as one staff member put it, that "we had taken all this heat when we were set up, people obviously wanted to know what we were doing with this money, and if we didn't tell them, they could be forgiven for wondering what we were up to." Another director was more blunt: "We were willing to put hundreds of millions of dollars into this work, but we weren't willing to talk about it. Sounds nuts to me."

To Reid and many on the staff, a communications program was an essential part of achieving program goals. The new external affairs program therefore started by profiling the work of grantees, creating publications and web information on the Endowment's programs, and generating well-designed, inviting information for internal use. By the time Reid stepped down as CEO, he says, "we went from no communications to sophisticated internal communications and better information reaching the public. But we still didn't have the kind of communications plan that meshes with and reinforces the program strategy. We're really only doing that now, in the last year or two [meaning 2002 and 2003]."

Part IX: Stability and a Strategic Vision

The final phase of the search for a permanent CEO lasted from September 1999 until July 2000, when the board — for the third time in its four years — chose an insider as its chief executive. The selection of director Robert Ross was, says former Chair Ken Anderson, "a two-year national search for someone who'd been sitting in the room the whole time."

> We had been laboring over issues like, Do we get a university president? An ex-politician? Somebody with name recognition? We talked to people with names everyone would know. There was pressure to get image. … But the board decided, after a while, that what we really want is somebody who knows what they're doing. The headhunters had told us that our requirements were too narrow, too demanding. I was kind of upset about it. They broadened the list, and I was afraid they were going to bring in someone with only remotely relevant experience. Yet here we had, in our midst the whole time, Bob Ross — who was the perfect selection! He was our *original description*. The consultants hadn't been sure that the person we wanted even existed. Yet not only did such a person exist, he was right there in front of us.

The decision was not quite as obvious as it seems. Ross had, in fact, declined an earlier suggestion that he apply for the CEO position, at a time when he felt that he could not leave his responsibilities as director of health and human services for San Diego County. But the search had gone on long enough so that when outgoing chair Leroy Barnes again approached Ross about his availability for the job, roughly a year later, his circumstances had changed:

> That was just before New Year's Day 2000. I remember the New Year's Eve conversation with my wife about whether to leave San Diego, and over a glass of champagne we decided I'd throw my hat in the ring. By then, the issues at the Health and Human Services agency were far enough along so that it would take an act of God to undo what we'd been trying to do. But when I threw my hat in, I had no idea what my chances were. I had zero nonprofit experience, except for a year on a board, and I wondered how many board members wanted a brand-new fresh face from the outside.

In reality, after two years of scanning dozens of fresh faces — several of them from far outside the fields of health, philanthropy, or nonprofit management — many members of the search committee found Ross's face refreshingly familiar and "inside." He was a physician, an expert in public health, and the top executive of a billion-dollar county agency — thus covering nearly all the areas of expertise the board had emphasized in its search. But more than that, after some two years on the board, he was also more familiar with the Endowment's needs than any other candidate being considered. And at least some members saw in him the solution to a problem dogging the institution almost since its founding: He had, as then-Chair Stewart Kwoh put it, "a strategic mind."

In board members' recollections of their choice of a CEO, the word "strategic" occurs time after time in connection with Ross. After two years of rising clarity about program goals and means of achieving them — the result of Reid's annual written plans —

directors were determined to find a leader who would apply the same approach to a longer time horizon. That had become, says Leo Estrada, a kind of defining criterion for winnowing the final candidates. "On Laura's committee, one of the questions we asked every single candidate was, 'How would you approach strategic planning?' We had some excellent candidates, but when you ask them how they'd create a strategic plan, we got some very lame responses."

Ross was selected, says Wiltz, "because he had vision — but not just the kind of distant vision where people see a city on a hill. He knew how to get up the hill."

Although he officially became CEO immediately upon the announcement of his selection, on July 17, 2000, the job transition and move from San Diego to Woodland Hills took several weeks. During that time, Reid continued to manage the organization unofficially, and staff prepared grants, with Ross's regular review, in pursuit of the 2001 Program Plan. These included a $1.5 million grant to Mount San Antonio College to help recent immigrants with health-care backgrounds to qualify for comparable positions in the United States — a key goal of the "Workforce Development" program, a Level I priority. Also under preparation in this period was a $3.6 million grant to the University of California at San Francisco for an anti-asthma campaign, the year's largest grant under the Level I program "Disparities in Health." The release of a Request for Proposals in early September launched the Mental Health Initiative proposed under Level II, with several mental health grants following before the end of the fiscal year.

This last activity struck some directors as a model for what should make The California Endowment distinctive among foundations: It sought to build a strategic initiative by first soliciting and responding to the ideas of grassroots organizations. As Mike Stephens put it, "Rather than engaging think tanks and researchers, we decided to send out RFPs and fund 25 organizations that are *doing* things. Then we'll evaluate that funding and learn from that, and use what we learn to define our strategy around mental health. That took us a step away from more traditional foundations. We *learn by funding*, rather than relying on research and academicians to find a creative solution."

All of this work proceeded under a gradual hand-off of leadership from Reid to Ross that was completed by September, when Ross took over full-time. (Reid remained as an adviser until October 1.) Not surprisingly, given the reasoning behind his selection, strategic planning was among the first issues Ross tackled as he started his transition. Two days after his appointment as CEO, at his first board meeting, Ross asked each member to name up to five people of particular importance to the Endowment whom he should consult in his first few weeks on the job. The list, supplemented by staff and by Ross himself, led to a round of "stakeholder interviews" that formed an early basis for strategic planning, along with an introductory round of individual meetings with members of the board.

"When I first arrived on the board" in 1998, Ross recalls,

> it was still far from having set any strategic framework. [Once I became CEO] it took us a year to get the board and staff on the same page on a strategic framework, then *another* year to get them on the same page for a five-year implementation plan. You need a year or two to get to that point, but when this organization was starting out — the point at which that two-year clock should have started ticking — it never really had the opportunity to get started on that. It simply had too much immediate responsibility. So the start of that got delayed, really until Lew's tenure.

Beginning, therefore, with categories set forth in Reid's FY 2001 Program Plan, Ross started what would become nearly a year of work to get the board and staff "on the same page" in recognition of strategic priorities, goals, and programs. Where the 2001 Program Plan had created three levels of possible investment and exploration, and had deliberately limited itself to a one-year horizon, Ross set out to create a five-year vision around a single theme. That theme would "establish a unifying framework for our work, one that would include both responsive and strategic grantmaking approaches, and would clearly and succinctly communicate to external audiences our values and uniqueness as a foundation."[17] He formed a staff task force first to compile the framework, and later, in Fiscal Year 2002, to translate it into an implementation plan.

Ross and the planning task force presented an early draft of the framework to the board at its April, 2001, annual meeting. The single theme, which survived into the final draft three months later, was "a multicultural approach to health," a theme that arose "from a starting point that took into account past work, the values of the organization, and the implications of California's changing demography."[18]

The ensuing conversation was something like a small rebirth for the Endowment — and not just in the obvious sense that it would become the starting-point of a new strategic vision. It was also a return to the kind of soul-searching discussion — about values, definitions, and philosophy — in which the board had engaged at such great length in its early months. In fact, much of what the minutes describe as "an extensive discussion" turned on an issue that had arisen four or five years earlier and had never been resolved: What is "multicultural"? Is that even the right word for the diversity and complexity of California's social makeup and health challenges? Some members thought the word was so broad and vague as to defy definition, others considered it too narrowly slanted toward race and ethnicity, to the exclusion of the richer and more complicated levels at which

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[17] The California Endowment, "Strategic Framework," July 2001, p. 2.

[18] *Ibid.*

culture influences health, learning, and behavior. Others liked the word precisely because it had "culture" at its root, a topic they considered too often overlooked in health circles.

This was precisely the kind of ethereal discussion that a member of the board had been describing, in reference to the conceptual debates of 1996 and '97, with the comment, "If you have a universe of things you might do, abstractions start to take over." The difference, in this case, was that the board now had a record of actual grantmaking that was not at all abstract. And it had chosen a permanent leader who described himself as "uncomfortable with abstractions." Rather than getting lost in the etymology and psychological ramifications of the word "multicultural," the board was about to find itself drawn quickly back into the world of practicalities.

After listening carefully to the various lines of argument, which concluded with what the minutes gently characterize as "a lack of clarity," Ross took a firm position. The "multicultural" approach, he argued, may be "an emerging discipline," but it could be defined clearly, compellingly, and in a way consistent with the board's values. These, he believed, were actually much more in harmony than their semantic disagreements might suggest. He believed multiculturalism was the right idea on which to base the plan, and noted, among other things, that the actual contents of the draft had been received enthusiastically — partly *because* they were so firmly rooted in a multicultural approach. He promised that the final draft would include a clear definition of the central concept, to dispel misinterpretations, and then move swiftly on to specifics.

True to his word, Ross delivered a final draft of the Strategic Framework to the board's July meeting, containing a definition of "a multicultural approach to health" on page 2, barely 30 words in length[19], and then moving immediately to four program areas around which the staff had organized a multi-year vision:

- Workforce Diversity
- Cultural Competency
- Access
- Disparities in Health

Along the way, the plan made constant reference to the terms of the Endowment's mission and to touchstones of earlier board statements of policy and philosophy (including several principles that had once been the subject of protracted philosophical discussion, like "community-based," "responsive," "regional," and "system change."). It explicitly built on the evolving strategic categories of the 2000 and 2001 Program Plans, and incorporated strategic approaches to learning, evaluation, and communications. It cited extensive research, some of it commissioned by the Endowment, and described a

[19] "A multicultural approach to health is one that mobilizes the talents, cultures, and assets of California's diverse populations to improve the quality of our health systems and to promote health at the level of communities."

process for translating the Framework into a more tactical Implementation Plan. Despite extensive board comments on the text — or perhaps precisely because of these — it was clear that the framework had captured the directors' imaginations. The plan was, according to the minutes, received "enthusiastically" and unanimously approved as amended. Within a year of taking office, Ross felt confident that he now "had a mandate where we were all heading in the same direction, and we could spend our time on accomplishing the goal, not on worrying about what the goal ought to be."

Several board members, reflecting on the development of the Framework, note that the staff's increasing experience with planning and Ross's ability to work toward quick consensus were crucial reasons for that accomplishment. A third reason, probably just as important, was that the pressure on staff to meet payout targets had become negligible. By the time the board saw the first draft of the Strategic Framework, program discussions had long since ceased to revolve around whether the number, size, and pace of grants would be adequate to meet distribution targets. Instead, the targets were being met in the course of normal operations, and the main questions about the grant portfolio now were the ones that would always be asked: What kinds of grants best fit the Endowment's programmatic purposes, the grantees' needs, and the health of California's communities? By the end of Bob Ross's first complete fiscal year as CEO, total grants would exceed the payout mandate by nearly $40 million, a cushion of more than 22 percent.

"For five years," says Stewart Kwoh, who chaired the board at the time the Strategic Framework was adopted,

> we had functioned with no overall plan, other than the one-year plans we were just starting to get. … During Lew's tenure, he got us from a process-obsession with payout to actually thinking about grantmaking in a broader sense. But a five-year plan had to wait for a permanent CEO. Once we got there, so many other things became possible — full staffing, long-term relationships with grantees, measuring ourselves against real benchmarks — a lot of things that still aren't perfect, or that may be still in the early stages, but that are possible now. From here on, we can function as a real foundation, as a real board, and worry not about just getting things done, but about getting them *right.*

Conclusion: Themes and Lessons (A Very Partial Tally)

This history concludes, somewhat arbitrarily, with the adoption of the Endowment's Strategic Framework in July 2001, when Bob Ross's presidency was still taking shape and several crucial management and organizational steps were yet to be taken. Many program and administrative efforts that were still in development at that point, including some that have since taken full shape, are thus necessarily omitted from this discussion. Still, despite this early conclusion to the story, it may be worthwhile to end with a list of overall lessons and themes that struck key players as important when looking back over their first five years of building The California Endowment.

The list is admittedly organized and distilled by the interviewer, and thus does not fully reflect the thoughts of any one interviewee. It does, though, combine the most common answers to the question, "What stands out, in your service with the Endowment, as a highlight, a crucial lesson, or a key insight?" What appears here is therefore a kind of trial balance, summing up the record so far, but awaiting further evidence and the more fully informed judgment of future observers. In the meantime, the value of such a list may lie precisely in its proximity to the events described: It reflects an assessment, in recent hindsight, by people who lived through an extraordinary experience together and built, in the process, an important American institution.

Achievements, 1996-2001

1. *Creating a major new foundation.* "We had, in a sense, a blank canvas," says Mike Stephens. "It wasn't just the usual case of creating a foundation after a wealthy individual dies, leaving a family trust or foundation, where you know the amount of money you have and all you have to do is reflect the wishes of the family member who created the wealth. … We knew that because of the visibility of the transaction, there was additional scrutiny, and … everybody was looking over our shoulders, so to speak." Creating any new institution is hard. Creating one that started life as a political lightning-rod and that almost instantly became one of the largest philanthropies in the United States — "that," said Richard Atlas, "was a real challenge."

2. *Forming a respectful, collegial governing body.* Peter Pennekamp, in summing up the board's internal dynamics, observed that "the balance on the board has worked beautifully. The dramatic tension has been tremendous. I don't think you want more business people than community-based [on such a board], but I don't think you want it the other way around either. Then if there's a smattering of people in between — say, running hospitals — you get a pretty good mix. This is a big

board, besides. I've never been on a board that's had discussions as rich as this one, even given its size." To a person, directors interviewed for this paper described their respect and friendship for other board members as a highlight of their service. Some added, as did Pennekamp, "I've been on many boards where that didn't happen."

3. *Meeting Herculean payout mandates.* The achievement, as Rich Atlas puts it, is "not that we gave away this or that amount of money. You can give away almost anything. What matters is that we gave it away responsibly, which was very hard to do. And when we felt we could not give it away responsibly, we made our case to the regulators, and they worked with us to get the right solution." The board's multi-year struggle to meet the payout targets not only won goodwill for the institution, it taught a valuable lesson to regulators and students of philanthropy nationwide about what is — and what is not — desirable in organizing a grantmaking program.

4. *Blending responsiveness with strategic philanthropy.* The California Endowment created, by its own reckoning, the largest responsive grantmaking program in California. Given the institution's size, and its designation of half its resources to such grants, the Endowment surely operates one of the largest responsive programs anywhere in the country. Among the goals of modern philanthropy, responsiveness is something of a poor relative: not exactly despised, but not much beloved either. Many foundations of the California Endowment's size make grants *exclusively* in pursuit of long-term "strategic" programs of their own design, with little or no opportunity for outsiders to alter the agenda. For an institution of the Endowment's prominence to declare that its grantees should take the lead in setting philanthropic priorities — even to the extent of consulting them on *strategic* initiatives — sends a national signal. "We know we struggled a long time over this issue," says Stewart Kwoh, "but that's because we wanted to do it carefully, and there were so few examples out there to draw from."

5. *Learning and recovering from mistakes.* The Endowment's first few years contain a record of institutional hardships brought about, in most cases, by formative decisions made in haste or under intense pressure. Some of these are the subject of "painful lessons" listed in the next section. But before rehashing the pain, it is important to note that these were lessons *learned,* with real changes made rapidly as problems arose. Payout thresholds were rearranged, personnel decisions were reconsidered, strategic choices were adjusted, all without protracted hand-wringing or indecision. "Working under all the criticism was painful," observed Sister Ruth, "but not really daunting. We knew this had to go forward, so we just said 'What do we need to do to correct it?' "

Painful Lessons

1. *In philanthropy, volume isn't everything.* The history of nonprofit conversions in California had led many influential people to fear stinginess, more than anything else, when they considered what would become of Blue Cross's charitable assets. That fear led to a bold, well-orchestrated, and highly successful effort to ensure an adequate valuation of those assets. But it also led to a push — ill-conceived, in hindsight — to force the new Endowment to "shovel out the money," in Ken Anderson's phrase. Not only was it hard for a brand new institution to make wise use of scores of millions of dollars with little staff and no time for deliberation. It would also have been all but impossible (either legally or practically or both) for some of the most deserving grantees to accept contributions in the amounts that the Endowment needed to hand out in those days. Good philanthropy isn't measured in dollar volume alone. Stinginess, it turned out, was only one trap to be avoided in the creation of a new philanthropy. Carelessness and haste were others. (They *were* avoided, in fact, but only because wise heads were willing to reconsider misguided assumptions.) As this is written, Congress is once again reassessing distribution requirements for foundations, with mounting pressure to compel higher payouts. The lessons of the Endowment's early years therefore remain timely, and those years furnish a good case study for those who would like to understand the issue better.

2. *Outside advisers can be helpful in picking a leader, but only to a point.* Every time the Endowment (or before that, Blue Cross) launched a formal search for leadership, it soon found itself re-thinking the search advisers' mandate, or the nature and composition of the search firms they retained, or both. The search for an initial board, conducted with the help of several search firms, produced highly successful results — but only after the original reliance on a single firm was broadened to include four different ones, with extensive personal involvement in the process by Blue Cross staff and directors. Later leadership searches, whether they ended happily or unhappily, invariably had to be reorganized, reconsidered, or sometimes simply aborted and started over again. In that respect, the Endowment's case is unusual only because of the exceptional time pressure and publicity under which it was sometimes working. Many organizations, both for-profit and nonprofit, have similar stories to tell. In general, finding a leader is something that only leaders can do effectively. Everyone else is auxiliary.

3. *Abstractions can lead down blind alleys.* Looking back on the long, open-ended discussions of philosophy that dominated the board's early years, many directors see a valuable, thoughtful experience that drew members together, built trust, and established some values on which the institution still relies. One might agree on all those points and yet ask, as several directors did, whether the discussions needed to occupy quite so many months, or to circle back on themselves as often as they did. It is probably too soon to answer those questions reliably. It was clear

to many observers, though, that one can easily travel too far down the philosophical road, or linger there too long, and that in time the abstract discussions might have become truly paralyzing for the board and the whole Endowment. Ironically, it may have been the relentless payout requirements that saved the board from too deep an immersion in semantic or philosophical disputes. As one director put it, “when you start to narrow down to particular grants, … you start to have a body of experience that sweeps away the generalities.” Under constant payout pressure, the board had no choice but to “narrow down to particular grants” very quickly — which may have hustled the generalities off stage just in time.

4. *‘Strategy’ takes time, deliberation, and experience to devise.* Many directors felt frustrated, in the first few years, at what seemed like an endless delay in coming up with truly “strategic” programs for the Endowment. The insistent use of the term, in those years, suggests an almost frantic casting-about for anything that could pass for a strategy. “We talked about balancing ‘strategic’ and ‘responsive,’” Leo Estrada recalls, “But we didn’t really know what it meant. Most of us went with the rhetoric, even if not the substance. We felt we should have a few priorities of our own, but we didn’t have any particular target.” Stewart Kwoh adds that the strategic plan so many directors sought was “not just about picking the categories we’re going to fund, but assembling all the pieces and ensuring that all the pieces can interact and work well together.” It was not until Lew Reid’s first full year as CEO that the staff and board had the time and grantmaking experience they needed to begin fitting the strategic “Rubik’s Cube” into a coherent whole. Compiling that experience, forming relationships with grantees, and reasoning through the many complex relationships that underlie community health — all these took time. In the end, as Peter Pennekamp observes, “some of the most strategic ideas we’ve gotten have come out of responsive grants.” The strategy arose more naturally, and with broader support on the board, after a few years of diligent responsiveness, wisely pursued and carefully observed.

5. *Communication is not just a means of self-promotion; it’s a philanthropic instrument.* In its first two years The California Endowment sought news coverage for its program (as opposed to its administrative and personnel decisions) only three times. After such diffident beginnings, it is all the more remarkable to read, in the Strategic Framework of July 2001, that communications should be “a tool to advance the strategic, programmatic, and policy goals of the Endowment, as well as to support and advance the work of our grantees.” The board and staff came to learn the importance of good public information and public relations in part by living without either one for far too long. “We were willing to put hundreds of millions of dollars into this work,” a director said, “but we weren’t willing to talk about it.” Admittedly, for an

institution born under the klieg lights of unwanted publicity and political scrutiny, keeping a low profile might have seemed only natural for a time. But that reaction, if it was ever helpful at all, soon became harmful. And to the Endowment's great credit, it soon recognized the error and corrected it.

Lingering Issues for the Next Five Years

1. *Evaluation.* "The Achilles' heel of philanthropy" is how Lew Reid describes the scarcity of reliable evaluations in the foundation world. Nonprofits have a distinguished history of self-flagellation over the problems they've faced in measuring results, comparing costs and benefits, and determining how the consequences of a given program compare with those of another (or of doing nothing at all). Recent philanthropy offers few examples of first-rate evaluations, and some of these are memorable mainly for their complexity, their costliness, their inconclusiveness, or some combination of the three. At least once in its first year, the Endowment board sought advice on how to approach evaluation, but found the consultants' recommendations uninspiring. From then on, the issue has arisen mostly in connection with particular grants or initiatives, and even then, not always with a clear plan of action. A complete, Endowment-wide approach to evaluation remains, in many directors' eyes, an elusive challenge for the coming years. The fact that the Endowment is not alone in this frustration, and that such problems plague virtually all foundations, strikes many directors as cold comfort. As current Chair Laura Wiltz puts it, "We talk about lessons learned, and they're generally around delivery processes, not outcomes. … I worry that we're not even setting ourselves up to articulate conclusions about what we've achieved."

2. *System change in an era of fiscal upheaval.* For most of its history, the Endowment has sought to change the health system in California — and particularly access to care by the poor and underserved — by extending coverage to more and more people, including coverage under public programs. As this is written, the budgets of the state and federal governments are under profound pressure. The next few budget cycles and approaching state and federal elections may change such programs, and possibly the shape of the private health care and insurance industries, more profoundly than at any time since the 1960s. That is not a reason to hesitate, but it may mean that the Endowment will have to be ready to adjust both its strategy and tactics, perhaps radically, in response to political decisions of the next few years.

3. *Achieving board cohesion without crisis.* Future members of the Endowment board may be relieved at the thought of having escaped many of the pressures and emergencies that beset their predecessors. And there is little doubt that today's calmer atmosphere has been conducive to more thoughtful deliberations, longer-range thinking, and less anxiety for members than was the case in the formative

years. Still, when asked what they considered most remarkable about this board of directors, the original members all but unanimously cited the warmth, trust, respect, and creativity that prevailed in its meetings and informal discussions. Many of those members expressed a worry that this exceptional collegiality may have been the fruit of working together under stress. Lose the stress, they fear, and some of the cohesion may be lost as well. Reflecting on that theory, Sherry Hirota suggests "there has to be a better way" of bringing people together. And no doubt there is; one successful approach to team-building on the board has already arisen in the calmer atmosphere at the end of the 1990s: frequent group visits to grantees around the state, with plenty of time for informal discussions, socializing, and interaction with grantees. Whether that exerts a galvanizing power similar to the persistent crises of years past remains to be seen. But quoting Hirota again, "for all the satisfaction we experienced, no one wants to go back to the old days. No one."

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