

HESS FOUNDATION
WILL THIS SECRETIVE
FOUNDATION
EVOLVE BEYOND
CHECKBOOK
PHILANTHROPY?

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BY **ELIZABETH MYRICK**



philamplify

honest feedback to improve philanthropy



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ABOUT THE AUTHOR

Elizabeth Myrick has worked in the philanthropic sector for over 15 years, beginning with serving as program director for the Maine Community Foundation. As a grantmaker, she worked closely with communities, nonprofits and donors to design and evaluate grantmaking and endowment building programs. From 2000-2008, Elizabeth held senior positions with the Aspen Institute, first with the Community Strategies Group and later, as assistant director of the Nonprofit Sector and Philanthropy Program. From 2002-2010, she directed the Community Giving Resource/SmartLink, a set of online tools and research created especially for donors and foundation trustees giving locally, to neighborhoods and communities.

Since 2008, Elizabeth has worked as an independent consultant assisting nonprofits and foundations in their efforts to learn, build networks and implement policies and practices that achieve lasting impact. As lead program consultant, she designed and helped implement the Council on Foundations' Career Pathways Program, a cohort-based learning and leadership program for senior foundation staff representing diverse backgrounds. Current clients include family foundations, community and other public foundations and national nonprofits. A native of northern Maine, Elizabeth has maintained her passion for rural communities and the Red Sox. Elizabeth lives just outside Washington, D.C., with her husband and two children.

EXECUTIVE SUMMARY

“In a lot of respects the foundation is only at the edge of what it can accomplish. Professionalizing the staffing and allowing the board to embrace more professional staff and stronger governance would take things to a much more impactful level. Right now ... they are basically bank tellers. This transactional type of philanthropy – you’re working at the bottom of your license.”

—FOUNDATION STAKEHOLDER

Much about the Hess Foundation, and any philanthropic individual or family, is to be admired; certainly, the organizations that benefit from the Hess Foundation’s general operating support are grateful and responsible stewards of the foundation’s charitable dollars. On an individual, personal level, Hess Foundation trustees appear to be active, thoughtful and responsive grantmakers. Each Hess Foundation board member has been and continues to be a significant contributor of time, talent and resources as both a volunteer and public servant. The freedom and flexibility, as well as the tax benefits, represented by Hess Foundation’s brand of “checkbook philanthropy” are not without precedent nor, in this case, do they appear to be inappropriate or overreaching. Hess Foundation grantmaking simply represents the bare minimum in terms of philanthropic strategy, transparency, payout and impact.

The Hess Foundation was founded by Leon Hess, founder of oil company Hess Corporation (known as Amerada Hess until 2006) and former owner of the New York Jets football team. When Hess died in 1999, his widow Norma became president of the foundation until her death in 2010. Subsequently, the size of the board of directors decreased from eight to five, and Hess’ son John, the youngest of the three Hess children and current CEO of

Hess Corporation, became president of the foundation. John Hess’ sisters, Marlene Hess and Constance Williams, are the foundation’s vice presidents. The remaining board members are Eugene Goodwillie Jr., a retired attorney for White & Case who once represented Hess Corporation and Leon Hess’ estate, and Thomas Kean, former governor of New Jersey, chair of the 9/11 Commission and former Hess Corporation board member.

The Hess Foundation makes more than half of its grants to large, established organizations and all its grants to organizations addressing issues or communities in which Hess family members have direct and personal ties. The Hess Foundation supports programs and institutions focused on: arts and culture; health and wellness, including hospitals; and education, including universities, private secondary schools and charter schools. Hess directs a modest portion of its support to programs that increase opportunity and access for individuals facing specific educational, socioeconomic, gender, health and other barriers to success. The majority of grants are made to organizations in New York; New Jersey; and the Philadelphia metropolitan area, also known as the Delaware Valley. A small number of grantees have a global reach but all are located in the United States.

Between 2010 and 2012, the Hess Foundation awarded 783 grants totaling \$89 million. The average grant size was \$113,000; the median was \$210,000. The largest was \$5 million; the smallest was \$2,500. Of the 783 grants awarded between 2010 and 2012, 401 were made to organizations with budgets of \$10 million or more. The largest number of grants (348), totaling \$52 million, were awarded in the tristate region of New York, Connecticut and New Jersey. The next most frequently supported region was the Delaware Valley, receiving 205 grants totaling \$17.8 million.

The Hess Foundation has often awarded grants for multiple years; interviews revealed that Hess typically makes grants annually, during the last quarter of each year, sometimes spanning decades. Forty-three of 100 grantee survey respondents and 16 of 29 grantee interviewees reported that the relationship with Hess originated and remained (even years later) between a Hess trustee and the grantee's board member rather than between professional staff.

NCRP invited the Hess Foundation's leadership and management to participate in developing this assessment. NCRP has shared the study's methodology and intentions with the foundation's management firm. Neither the trustees nor the foundation's management firm, CohnReznick, responded in any way to invitations to participate. This unresponsiveness correlates with feedback from long-time grantees and well-connected peers who described the foundation as mysterious and invisible.

In contrast, Hess' corporate giving has a pronounced public presence as well as a professional staff and a set of policies and practices aligned with corporate giving best practice. While it is impossible to determine whether the Hess Foundation's pursuit of the bare minimum is intentional or benign neglect, the high levels of engagement by board

members in other aspects of public life suggest the former. Perhaps each family member just prefers to act alone rather than through a collective and unified board. It may be a matter of organizational maturity or evolution, although several family foundation experts suggested that family foundations rarely follow a linear trajectory from informal to formal. Many remain informal and transactional forever.

While financially substantial and personally meaningful, the Hess Foundation's impact is limited by significant operational, communications and strategic weaknesses. Several stakeholders believed that the Hess family's values aligned with a commitment to social and economic justice, but a study of the Hess Foundation revealed no philanthropic strategy and no engagement with the larger philanthropic community. Current grantees and other stakeholders are eager to connect more deeply with the foundation's values and strategy and to see the foundation collaborate with other funders and sectors to address systemic issues facing the Delaware Valley, New York and New Jersey.

Its constituents and peers urge the Hess Foundation to embrace and cultivate a more active and accountable dynamic with grantees. Its current operations leave the Hess Foundation out of step with the times. Transparency is one of the more compelling topics to surface throughout society and in philanthropy in recent years. The last three decades have been marked by the rise of the Internet, access to big data, and a redefining of what a right to privacy means. Visibility and a willingness to be transparent are expected, not optional, for most American institutions.

NCRP and others have stepped forward to assist foundations in engaging with stakeholders, communities and grantees in new ways as strategic partners. Grounded

in best practice and philanthropic impact, the Foundation Center's Glasspockets initiative is a powerful resource and incentive to make foundation decision-making, strategies and impact more transparent. A collaborative effort of the Aspen Institute's Nonprofit Data Project has convened the sector's data hubs, including Foundation Center and Guidestar, to determine which, when and how nonprofit finances could be made more accessible and compatible. Individual foundations – large and small, and of diverse types and missions – have tackled transparency by engaging in open, public dialogue and debate with stakeholders and grantees. Together, leaders in the philanthropic community have sought to dismantle the image of the insular, detached funder.

The philanthropic, nonprofit, public and private sectors have all changed. If the Hess Foundation wishes to invest its full cadre of resources in organizations capable of lasting impact, it too must change. Hess family members need look no further than the Hess Corporation's giving program to find an example of more transparent, professionally-staffed philanthropy. This report urges the Hess Foundation to move beyond checkbook philanthropy and to invest in achieving its own and its grantees' full potential.

KEY FINDINGS

1. **The Hess Foundation does not make its grantmaking goals and strategy public. It awards grants to large, established, often elite organizations that focus on communities and issues with which Hess family members have direct and personal ties.**
2. **Fewer than two in every 10 grant dollars explicitly benefit underserved communities. Still fewer are directed toward systems change and equity.**
3. **Grantees value the Hess Foundation's unrestricted support and minimal reporting requirements. However, grantees would welcome opportunities for increased communication, dialogue and partnership with foundation leaders.**
4. **In contrast to Hess Corporation's giving, the Hess Foundation's operations are insular and lack transparency. As a result, the foundation remains a mystery to potential nonprofit and philanthropic partners and misses opportunities to exercise leadership and amplify impact.**
5. **Both the Hess Foundation and the charitable lead trust (CLT) that provide annual income to the Hess Foundation are heavily invested in Hess Corporation stock. The charitable vehicles and associated investments enable the family to retain ownership of Hess stock, free from capital gains or inheritance taxes, until 2035 when one vehicle, the CLT, is scheduled to revert to Hess heirs. The lack of asset diversification may benefit the Hess family, but it places the foundation's charitable assets at risk and does not represent best investment practice.**
6. **The Hess Foundation's "checkbook philanthropy" pays out the legal minimum in grant dollars, is governed by a small, homogenous board and employs no dedicated professional staff. For a foundation of its size and potential influence, the Hess Foundation's operations are atypical and serve to weaken rather than bolster impact.**

RECOMMENDATIONS

1. **Retain the strongest elements of Hess' grantmaking: personal commitment, long-term operating support and manageable reporting requirements that "let grantees do their work."** On

an individual level, Hess trustees appear to be active, thoughtful and responsive leaders who significantly contribute their time, talent and resources. The freedom and flexibility afforded grantees by Hess Foundation's brand of "checkbook philanthropy" are refreshingly atypical of large foundations. Grantees urge the foundation to continue to trust nonprofits to use Hess funds as they see fit to achieve their mission with minimal paperwork demands.

2. **Seek input from peers and grantees to envision the systemic impact the Hess Foundation will have, especially among marginalized communities.** While financially substantial and personally meaningful, the Hess Foundation's impact is limited by significant operational, communications and strategic weaknesses. Hess Foundation grantmaking simply represents the bare minimum in terms of philanthropic strategy, openness and impact. Communities facing the most difficult path to social justice can benefit from philanthropy that promotes equity, transparency and cooperation with other sectors. If, in fact, the Hess family's values and public service align with a commitment to social and economic justice, we urge the foundation to develop a strategy that demonstrates that commitment, through engagement with the larger philanthropic and nonprofit community. Stakeholders urge the family to take explicit and deliberate action to move the Hess Foundation toward greater impact.

3. **Increase the Hess Foundation's transparency, improve communications and explore opportunities for philanthropic leadership. Invest more deeply in relationships with nonprofits and peer funders. Grantees and other stakeholders are saying "We want to know and work with you," and the foundation should take note.** The foundation's grantees are eager to connect more deeply with the foundation's values and strategy and to see the foundation collaborate with other funders to address systemic issues facing the Delaware Valley, New York and New Jersey. When asked what they would change if they were CEO of the Hess Foundation, "stronger communications" and "more transparent strategies" dominated grantee responses. Opportunities abound for the Hess Foundation to engage with grantees, like-minded peer foundations and community leaders. Hess family members need look no further than peer foundations and the corporation's giving program to find examples of more transparent, better connected and well-staffed philanthropy.
4. **Increase Hess Foundation payout to NCRP's recommended 6 percent of total assets for grants, plus operating expenses. This increase would allow the foundation to invest in targeted issues and communities while improving internal operations, including professional staffing, communications, governance, succession planning and "next gen" engagement.** Plenty of family foundations make significant – not exorbitant – investments in staffing, operations and governance to achieve measurable and sustainable impact. Deeper engagement and operational investments need not detract from personal relationships and serendipitous inspiration. Strong

operations and formal policies strengthen grantees' and foundations' ability to plan and steward resources.

- 5. Diversify the Hess Foundation's investment portfolio to manage risk and volatility while better serving the charitable purpose of this permanent philanthropic resource.** Many family foundations' assets and investments are tied directly to family businesses; even so, Hess Foundation and Leon Hess Charitable Lead Trust are overwhelmingly concentrated in a single company. When compared to its peers in size, the lack of diversification exposes its charitable purpose to unnecessary risk. In comparison, Levi Strauss Foundation and Dell Foundation, in spite of each foundation's relationship with a corporate entity, do not invest directly in the corporations from which their wealth came. Diversification better manages risk and volatility and therefore better serves the charitable purpose of each foundation.

INTRODUCTION

Imagine that you are sitting at your dining table; the cold November winds are whistling outside and you are busy with end-of-year planning, holiday preparation and everyday work and family obligations. From the day's mail, you see that many of your community's nonprofit organizations have begun to employ their most effective fundraising tool: the end-of-year appeal. You decide to work your way through the pile, writing a number of checks along the way: \$100 here, \$500 there, perhaps even \$1,000 to \$2,500 to select organizations that have deep personal meaning for you. These annual checks are mailed off to your alma mater, the hospice providing care for your great aunt, the literacy program giving a leg up to new Americans, the women's shelter. You will claim a charitable deduction; this certainly motivates the end-of-year timing. But, more than that, you appreciate that feeling of contributing to the greater good and the freedom to invest your charitable dollars in the organizations about which you care most.

This scenario captures most charitable giving in the United States. Remarkably common, yet still impressive, this kind of individual giving represents what the Foundation Center has called "the long tail" of "many donors/small gifts" charity. Individual giving often reflects a donor's unique life story, his or her personal and professional interests, a sense of gratitude and love of place. Timing might be dictated by tax laws made by others, elsewhere, but the impulse to give resides in each of us. Nonprofit organizations rely on this impulse and these flexible contributions to grease the wheels of our

health, social service, arts and educational organizations.

Less well understood, however, is that many of this country's largest institutional donors – such as the Hess Foundation – follow a similar "dining table approach" to giving, also called "checkbook philanthropy." An obvious distinction marks the difference: the size and number of checks. In 2013, the Hess Foundation made 165 grants totaling \$32,321,166. The largest grant was to Mount Sinai Medical Center in the amount of \$5 million, the smallest to the University of Massachusetts, in the amount of \$500. In 2013, the average Hess Foundation grant was \$195,886.

Hess Foundation giving is driven exclusively by three family members' personal relationships, home communities and professional and volunteer experiences. Each family member appears to direct a third of the total grantmaking, working independently of the others and independently of the two nonfamily board members, who seem to exert little discernible influence. Again and again, throughout interviews with grantees and other stakeholders, the term "charitable checking account" and "checkbook philanthropy" emerged when describing the Hess Foundation.

Yet, the Hess Foundation's size places it among a peer group of foundations – even family foundations – that opt for much more strategic, much more transparent philanthropy. By asset size, in 2013, Hess Foundation

ranked just outside the top 100 U.S. foundations with \$807 million in assets.¹ Peers in asset size include the Joyce Foundation in Chicago, Illinois (\$832 million), the Michael and Susan Dell Foundation in Austin, Texas (\$842 million), and the Rockefeller Brothers Foundation in New York City (\$800 million).

With a mailing address in New Jersey, the Hess Foundation ranks fifth among New Jersey's top giving foundations.² Very little of Hess grantmaking, however, occurs in New Jersey; in fact, the foundation's address is actually an office of its accounting firm CohnReznick. Unlike foundations of comparable size and age, the Hess Foundation makes no information publicly available about its staffing, structure or giving priorities. The Hess Foundation's IRS-required Form 990 is the only descriptive information originating from the foundation itself.

The foundation's shyness is not limited to the lack of an online presence. NCRP researchers sought interviews with CohnReznick, as well as individual board members and others with direct familiarity with the family and the Hess Foundation. These multiple requests for interviews were not declined; they were ignored.

Nevertheless, much can be discerned from the 100 grantees that completed Philamplify's confidential survey and even more has been discovered during 47 one-on-one interviews conducted with grantees and other stakeholders. Stakeholders included past and present grantees, regional peers, foundation and family wealth and tax experts, and journalists familiar with the Hess Corporation and its corporate giving program. It is clear from these conversations that the foundation's reticence extends to its own grantees and philanthropic peers, as well. The most oft-heard responses to questions asked of even long-time grantees were:

- "I don't know."
- "I've never met anyone from the Hess Foundation."
- "I don't know what they expect from us or why they support us – I am just glad they do."

While the philanthropic field³ has urged foundations to embrace transparency and share goals and strategies more widely, the Hess Foundation is a reminder that many family foundations operate completely under the radar. For these foundations, managing hundreds of millions of charitable dollars carries no obligation to share one's charitable intentions, decision-making criteria or even a verifiable street or online address. This report represents the first and only publicly available study of Hess Foundation's impact. As such, it takes seriously the Philamplify criteria⁴ and offers recommendations for achieving greater impact; it also aims to serve current and potential Hess Foundation grantees by simply demystifying one of this country's largest foundations. In the process, the report also aims to open a dialogue about the relative strengths and weaknesses of checkbook philanthropy, the importance of transparency and communications in achieving a socially just world and ultimately the notion of philanthropic accountability for grantees and grantmakers.

OVERVIEW OF METHODOLOGY

NCRP has developed an assessment tool for foundations that addresses the strategic practices outlined in *Criteria for Philanthropy at Its Best* and *Real Results: Why Strategic Philanthropy Is Social Justice Philanthropy*. The former provides a comprehensive and nuanced set of benchmarks that foundations can use for effective operational, grantmaking and leadership practices. The latter argues that to maximize impact, foundations must be both strategic and just. This goes beyond having clearly aligned goals and strategies and ways to measure impact. Foundations must also consider who benefits from their grantmaking by seeking input from affected communities and attempting to change systems that perpetuate inequity. A comprehensive, nuanced examination of foundation goals, strategies and practices is needed to understand how well a foundation can marry strategy and justice to be more impactful.

KEY QUESTIONS

To this end, the assessment addresses these key questions:

Overall Goals and Strategy

- Are the foundation's goals and strategies likely to benefit or empower underserved communities? Is the foundation applying an equity lens or analysis to its grantmaking? Is it addressing disparities in outcomes for the issues or constituencies it prioritizes?
- Which stakeholders and what sources of data and best practices have informed these goals and strategies?
- Does the foundation pursue and invest in systemic change strategies? Does it support grantees' efforts to

use the full range of advocacy tools legally at their disposal? Is the foundation leveraging its limited dollars in ways that will advance social justice?

- Is the foundation looking at the ecosystem of actors within the sphere it seeks to influence and collaborating strategically with others?

Outcomes and Impact

- What social justice outcomes have been achieved in part because of the foundation's efforts?
- Do the foundation's efforts result in meaningful and lasting social change that can be felt in people's lives, particularly those most affected by structural barriers and burdens?
- Has the foundation worked across sectors and silos to achieve impact?
- Has the foundation effectively supported community-driven collaboration and coalitions among grantees and other nonprofits?
- Can the foundation and its stakeholders point to specific signs of progress?

Partnership with Grantees

- Does the foundation employ responsive grantmaking practices, such as providing core support and multi-year funding? How do the foundation's grantmaking practices advance or hinder achievement of its goals?
- How does the foundation go beyond the grant to leverage its relationships, convening power, expertise and other assets to help grantees achieve mutual goals?

- Does the foundation solicit feedback from its grantees and applicants and act on that feedback?

Other Effective Practices

- How do the foundation's investment and payout policies and practices support its own mission and the goals of its grantees?
- Does the foundation operate in a transparent and ethical manner, with policies in place to prevent fraud and abuse?
- Is the board of directors large and diverse enough to allow for effective and ethical decision-making?

NCRP invited the Hess Foundation's leadership to participate in shaping and implementing this assessment. NCRP shared the study's methodology and aspirations with the foundation's management firm, CohnReznick. Neither the trustees nor CohnReznick have responded in any way to our three invitations to participate in the study. NCRP provided a draft of this report, via registered mail, to four trustees for review and feedback but received no response. Nonetheless, we are hopeful that the foundation will consider the findings and recommendations presented.

DATA COLLECTION AND ANALYSIS

To answer these questions, NCRP employed the following research methods:

- 1. Document review.** Extensive review of the foundation's few publicly available materials, including 990-PFs, grant descriptions, grantee press releases and articles related to donors, including Hess family and corporate activities.
- 2. Confidential survey of 2010–2012 grantees.** NCRP created a grantee survey and gave Hess Foundation

management an opportunity to provide input. Hess gave no input and did not invite grantees to participate. The survey was sent to 292 individuals. Of the 109 who responded, nine partially completed the survey and 100 completed 60 percent or more, thereby qualifying the response as complete. The survey had a response rate of 34 percent, lower than our goal of 40 percent but not surprising given most grantees' and stakeholders' lack of familiarity with the foundation beyond a relationship with an individual trustee.

3. Confidential interviews with selected grantees.

To delve more deeply into topics raised in the survey responses, NCRP contacted 40 of the grantees that submitted surveys for follow-up interviews. Ten nonrespondents were also invited to be interviewed. Respondents were selected based on geographic representation, relevance of survey responses and an indicated willingness to be interviewed. Non- and partial respondents were selected for interviews based on geographic, issue and size representation. Interviews were conducted with 28 grantees; 22 declined. Unless otherwise noted, stakeholder quotes used extensively throughout this report come from these interviews.

4. Confidential interviews with local, regional and national stakeholders.

NCRP interviewed a diverse group of individuals familiar with the foundation's grantees, family philanthropy or the nonprofit and philanthropic sector in New Jersey, New York and the Delaware Valley. Stakeholders were identified by NCRP and the researcher, with referrals also made by stakeholders themselves. These included state, regional and national grantmakers, philanthropic consultants, members of the media and nonprofit leaders who are

not current grantees. NCRP directly reached out to any stakeholders that were suggested by their peers. In all, NCRP contacted 35 stakeholders; 19 were interviewed and 16 declined.

5. Analysis of survey and interview data. NCRP analyzed survey data to discern correlations among grantees based on characteristics (e.g., issue focus, population served, location, type of support) and responses about key topics such as foundation effectiveness and partnership with grantees. Researchers used an iterative process to do a content analysis of open-ended survey responses and interview transcripts. The research team read through all these qualitative data, identified key themes, compared notes and further refined the codes.

6. Reports and news articles, referenced throughout this document.

KEY FINDINGS

STRATEGY & IMPACT

1. The Hess Foundation does not make its grantmaking goals and strategy public. It awards grants to large, established, often elite organizations that focus on communities and issues with which Hess family members have direct and personal ties.

The Hess Foundation was established by Leon Hess, founder of oil company Hess Corporation (known as Amerada Hess until 2006) and former owner of the New York Jets football team. When Leon Hess died in 1999, his widow Norma became president of the foundation until her death in 2010. Subsequently, the size of the board of directors decreased from eight to five and John Hess, the youngest of the three Hess children and current CEO of Hess Corporation, became president of the foundation. Leon and Norma Hess' two daughters, Marlene Hess and Constance Williams, are the foundation's vice presidents. The remaining two board members are Eugene Goodwillie Jr., a retired attorney for White & Case who once represented Hess Corporation and Leon Hess' estate; and Thomas Kean, former governor of New Jersey, chair of the 9/11 Commission and former Hess Corporation board member.

Like many family foundations, the real story of the Hess Foundation is best uncovered by getting to know each family member's personal interests and professional experiences. From the start and still today, Hess Foundation giving represents the interests of its founders, Leon and Norma Hess. Leon Hess was born March 14, 1914, in Asbury Park, New Jersey, and worked to preserve, restructure and exponentially grow his family's oil company through hard work and "boldness":

"He built a terminal using old tankers in Perth Amboy, N.J., and aggressively underbid competitors seeking federal oil contracts. ... Using innovative techniques after the war, which included building his own centralized storage systems, Mr. Hess made inroads on the share of the petroleum business held by the giant companies. By the late 1950s, he had built the first Hess refinery, and he opened a chain of Hess gasoline stations in 1960. ... Mr. Hess took the company public in 1963. In 1947, Leon Hess married Norma Wilentz, whose father has been the former attorney general of New Jersey ... and influential nationally in the Democratic Party."⁵

As Hess Foundation board members, Leon and Norma Hess' children have continued their parents' tradition of large gifts to organizations of great prominence. Both during his lifetime and immediately following Leon Hess' death, organizations of great significance to New York and to the United States have benefited from Hess family support. Lincoln Center, New York City Ballet and the Apollo Theatre continue to receive annual gifts from the Hess Foundation. Unlike many second generation family foundations, however, Hess Foundation board members seemingly work with no cooperation and no common strategy. In fact, Hess Foundation grantmaking can be better understood as John's grants, Marlene's grants and Connie's grants. Independent and insular, this generation of Hess family members came to their roles in the foundation at the middle stages of their lives and careers, and seem to have left little room to make the foundation any more prominent or strategic.

Residing in New York City, Marlene Hess has held both professional and volunteer positions that provide a depth of

knowledge and insight into the nonprofit and philanthropic sector. Active in the private banks for both JP Morgan and Chase, which merged in 2000, Marlene Hess worked as the managing director of Global Philanthropic Services at J.P. Morgan and the director of Not-for-Profit Relations for Chase. Marlene's personal interests seem to navigate her toward women's health, international relief and education, as well as several of the country's most important arts and cultural institutions. Currently, Marlene Hess serves on the boards of the International Women's Health Coalition, the Museum of Modern Art, Rockefeller University, the American Museum of Natural History, Jazz at Lincoln Center, Lincoln Center Theater, The Metropolitan Opera and Sesame Street Workshop. She is an active member of the Council on Foreign Relations and has served on several of its task forces. She is a past member of Harvard University's David Rockefeller Center for Latin American Studies and of its Overseers' Committee to Visit the College. In addition, she has served on the Capital Commitment Task Force of the New York City Partnership's 9/11 Financial Recovery Fund to aid in the rebuilding of lower Manhattan. Far from vanity projects, Marlene's service suggests active engagement and substantive depth. Yet, when and where the Hess Foundation's giving indicates involvement by Marlene Hess, the grants are often tied to her mother's legacy or annual operating gifts to large and established institutions.

Constance Hess Williams, who resides near Philadelphia in Haverford, Pennsylvania, is well-regarded for her service as a Pennsylvania state senator from 2001 to 2008 and as a member of the Pennsylvania House of Representatives from 1997 to 2001. Representing her historically conservative district as a Democrat, she is known for her bipartisanship. Like her sister Marlene, Constance's personal convictions and volunteer roles have included maternal health and women's leadership and advocacy, education, social service

and parks, and Jewish organizations and synagogues. Her current role as chair of the Philadelphia Museum of Art is a position of both distinction and, according to several Philadelphia interviewees, itself a "full-time job."⁶ Her husband, Dr. Sankey Williams, is the Sol Katz Professor of General Medicine at the University of Pennsylvania and was recognized by some grantees interviewed as being involved in grantmaking decisions with Constance. Of the \$89 million in grants made between 2010 and 2012, Hess awarded \$17 million in and around Philadelphia.

John Hess lives primarily in New York, and with his sister Marlene, is likely responsible for half the \$52 million awarded in New York and New Jersey between 2010 and 2012. John, now 61 years old, is the youngest child and only son of Leon and Norma Hess. He "joined his father on foreign oil fields at age 7 and began working for the family business in 1976 as a graduate trainee. As a Harvard undergraduate, he studied in Beirut, became fluent in Arabic and Farsi and later befriended Middle Eastern oil ministers."⁷ From 1995 to 2013, John served as both company CEO and chair of the Hess Corporation. An unfriendly Hess Corporation board called for his removal as chair in 2013. This decision resulted in increased corporate profits and, ironically, increased personal wealth for Hess:

"A little more than a year after settling a proxy fight with Paul Singer's Elliott Management Corporation over how to boost the shares of energy giant Hess Corporation, the company's chief executive officer John B. Hess has become a billionaire as the stock hit a five-year high this week."⁸

Especially in recent years, turmoil within the Hess Corporation and the oil and gas industry in general may have left John Hess less willing to advance a public philanthropic role or strategy. Yet, media reports surrounding the removal of Hess

as chair of the Hess Corporation board suggest that Hess Foundation's insular nature is consistent with family and corporate instincts that emphasize personal relationships and loyalty over technical knowledge and contemporary standards. In its coverage, *Forbes* offered a more personal critique of John Hess' management:

"[Hess Corporation's] entrenched board has been cracked wide open. Gone are long-time Hess family cronies like Nicholas Brady and Tom Kean and seven other incumbents who had precious little oil-and-gas experience."⁹

Thomas Kean, a former Hess Corporation board member and former New Jersey Governor, is also a member of the Hess Foundation board. While the board's nonfamily representatives, Kean and Goodwillie, have meaningful relationships with the family, no evidence could be found that these individuals participated in or directly influenced a single Hess Foundation grant. Again, relationships matter, while specific skills and expertise – though substantial in both men's cases – seem ancillary and untapped. [See Appendix C for a list of past and current affiliations for trustees Marlene Hess, Constance Williams, John Hess and Thomas Kean.]

Hess Foundation grantmaking, on the whole, extends directly from the personal relationships with particular nonprofit organizations and their trustees:

- "I think [Connie] is very committed to ... disadvantaged youth..."
- "At the end of the day, are we having an impact on kids? Making a difference in the lives of individual children? That matters to Connie."
- "The foundation is a private checkbook for this family."

- "Their giving just seems to be family interests. I do not know what Hess is about."

Many nonprofit development professionals described the relationship with the Hess Foundation to be like that with an individual donor. In keeping with this categorization, the Hess Foundation requests no reports or measures of success, although every grantee interviewed reported sending the Hess Foundation annual letters and reports summarizing accomplishments. As one said, "The letter we do as a donor touch ... it was more of an individual donor interaction, but the money is coming from the foundation. I don't think of this gift as a foundation gift, but as an individual donor gift." In some cases, the letters detail the use of Hess Foundation funds, but no one reported knowing whether these letters were read or even reached the intended recipient. "We send reports and do good stewardship and offer to submit more. Not sure she [Connie] wants to be bothered. We send those personally to her. In the first year, maybe we sent it to CohnReznick," said one recipient. Neither surveyed nor interviewed grantees had a sense that the Hess Foundation measured its own performance or progress toward specific outcomes. "I don't feel qualified to answer this question [regarding outcomes]. We have no contact with the foundation. Our board member solicits these gifts. We do not provide any proposals or reports. We simply send our newsletters and other publications."

Because the Hess Foundation provides no public information about its grantmaking goals, priorities, strategies or impact, the grants themselves are the only indication of funder intent. The author's analysis of Hess Foundation giving patterns revealed support for programs and institutions focused on arts and culture; health and wellness, including hospitals; education, including universities, private secondary schools and charter schools;

and opportunity and access for individuals facing specific educational, socioeconomic, gender, health and other barriers to success.

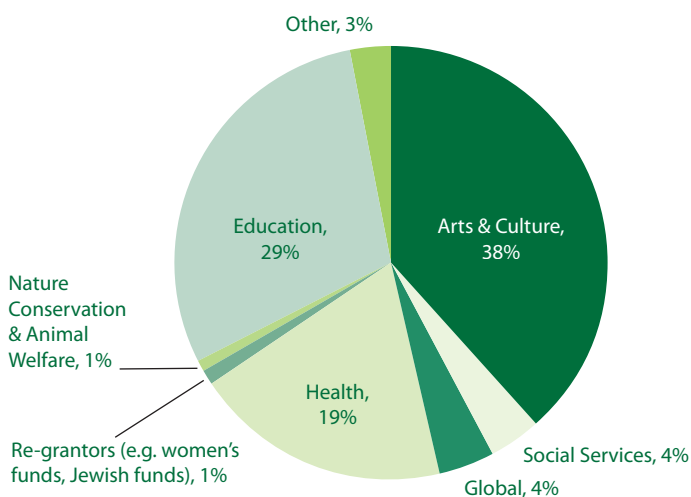
Between 2010 and 2012, the Hess Foundation awarded 783 grants totaling \$89 million. The average grant size was \$113,000. The largest was \$5 million; the smallest was \$2,500. Hess grantees themselves are often large, established institutions. Of the 783 grants awarded between 2010 and 2012, 51 percent were made to organizations with budgets of \$10 million or more. Almost half (44 percent) of Hess Foundation grants were awarded in the tristate region of New York, Connecticut and New Jersey (348 grants, totaling \$52 million). The second most frequently supported region was the Delaware Valley, with 26 percent of total grants (205 grants, \$17.8 million). A small number of grantees have a global reach but are located in the United States.

According to the foundation's 990, all grants were made for general operating support. Interviews with grantees indicated that grants were sometimes understood to be designated for specific programs – women's leader-

ship, advocacy on maternal health issues, arts outreach to inner-city schools. More often, grants were awarded in the spirit of annual gifts and thus completely unrestricted. None were made anonymously and no grantees indicated that they had been dissuaded from advocacy work. A closer analysis of grantee websites revealed that most Hess Foundation grants have supported education, especially postsecondary institutions with 229 grants totaling \$26.3 million over three years. Arts and culture institutions received slightly fewer grants, but more dollars. Health organizations, including large and small hospitals, cancer and other disease research and women's health services, received \$17.2 million. Social or human services grants totaled 65 (\$3.6 million). [For more information on the foundation's grantmaking, see Chart 1 below and Appendix B, 2010-2012 Hess Foundation Grants Analysis: Issues Receiving Significant Support.]

Grantee survey respondents were asked to identify the fields or issues in which they work. In total, the responses corresponded with Hess' overall grantmaking with the most respondents identifying as education organizations, followed by arts and culture, health and human or social services.

Chart 1. Hess Foundation Grant Distributions, 2010-2012



Hess grants supported universities representing the family's alma maters (Harvard College), engineering/STEM or medical research (Texas A&M, Marietta University) and communities with a Hess corporate presence (University of the Virgin Islands). Within the arts, the Hess Foundation awarded \$5.6 million over three years to New York's Museum of Modern Art and more than \$4 million during the same period to the Philadelphia Museum of Art. During the three-year period, much smaller Hess grants found their way to re-grantors, including the global peace and security funder Ploughshares Fund (\$75,000), the Ms. Foun-

dition for Women (\$30,000) and the Jewish Federation of Greater Philadelphia (\$100,000). Smaller organizations also represent close family ties and proximity. The Hess Foundation awarded \$30,000 to Alex's Lemonade Stand Foundation, a fundraising project dedicated to realizing a young suburban Philadelphia cancer victim's dream of eradicating childhood cancer. Grants to community-based social service organizations indicate a modest commitment to alleviating hunger, homelessness and poverty, especially among women, children and individuals living with disabilities or health issues.

The Hess Foundation often awarded grants for multiple years, though in most cases grantees do not know for sure whether a grant will be renewed or not. The first grant might have been launched by a relationship that predated current staff, leaving organizations with precious little knowledge of how or whether to reach out to the Hess Foundation. Forty-three of 100 survey respondents and 16 of 29 grantees interviewed described their relationship with the Hess Foundation as originating and continuing to reside between the organization's board member and a Hess family member. Similarly, two grantee interviews revealed that a chance encounter with a Hess family member led to a sustained commitment from the foundation. Such serendipity was described as "lucky" by recipients, but also raised unique organizational challenges:

"We were anxious for months [after Norma Hess passed away] ... [Norma Hess] was among four other women still in their 90s on our board who had known each other since they were young. ... [Constance Williams] directed us to Marlene. ... Norma had made a pledge in 2009, just a year before she died, a three-year pledge toward a capital campaign. ... When they made the last payment, we wrote to Marlene and just politely asked

her what the process would be now that they're done with that pledge to perhaps ask for additional funds. Two weeks later, we got a \$50,000 check. The [Hess children] are not involved ... whenever [Marlene] gives us money, it is all about her mother. ... Our tiny organization ... was very dear to [Norma Hess]."

NCRP's review found that the Hess Foundation is opaque in terms of intentions, strategy and operations. Realized outcomes and impact are equally vague. However, immediately following Leon and Norma Hess' deaths, Hess Foundation gifts did make a splash. Several buildings, academic departments or faculty chairs and programs were named after Leon Hess. The impact of these grants can be described in the most concrete of terms:

- Leon Hess Professorship of the Department of Environmental Health Sciences, Columbia University, New York
- The Leon Hess Business School, Monmouth University, New Jersey
- Leon Hess Cancer Center at Monmouth Medical Center, New Jersey
- Leon and Norma Hess Center for Science and Medicine, Mount Sinai Medical Center, New York

The major gift to Mount Sinai recognized Leon Hess' service as a trustee to the medical center from 1966 to 1999. In making the gift to Columbia University in honor of his father, John Hess was quoted as saying, "Leon Hess always believed in investing in health and education. The Hess family is deeply proud to be associated with the Mailman School and the critical work that the school does on behalf of future generations. The outstanding work of Tomás Guilarte gives us hope that we can make this a better world."¹⁰ In honoring the Hess family's gifts, Monmouth University described Leon Hess' involvement in American

“contemporary issues,” saying:

“Mr. Hess and his wife, Norma, reared an unusually successful family and instilled it with the same model sense of civic responsibility. Hess family philanthropy continues and can be seen across New York City at several universities, along the Jersey shore.”¹¹

In spite of these transformative capital gifts, the Hess Foundation’s reputation does not rise to the prominence or “household name” status of foundations like Robert W. Woodruff Foundation in Atlanta or The George Gund Foundation in Cleveland. Unlike those smaller cities, Hess’ relative obscurity may result from the sheer size and number of large foundations, large institutions and larger-than-life donors in and around New York City. Certainly, too, since Leon Hess’ death, the foundation has avoided attention. Having no staff, no website and describing every grant as “general operating support” is a recipe for below-the-radar, nothing-to-see-here grantmaking. The Hess Foundation’s motivations were described as “mysterious” at best, and at worst:

“They typify an entire model which is so slippery and difficult to wrap your head around and figure out the best way to build relationships with. ... We all want to work together to maximize [impact] for them and for us.”

Still, grantees reported tremendous appreciation for the foundation and believed its flexible support distinguished it from other funders and was directly responsible for its success:

“If it had not been for the type of grant [Hess gave us], the growth that we were experiencing ... could have overwhelmed us. ... [The Hess grant] is giving us the

opportunity to create time, to plan, to engage people ... to get people to engage with us and ‘to reimagine our scaffolding’ is vital. Where do you go if you are actually doing the right things to effect agency in your community ... you are growing your business in a way that supports it and starting to grow philanthropically, but if you actually need to take steps to grow, where do you get that support?”

Every one of the survey respondents believe the foundation’s giving makes a positive difference, but this is hardly surprising as the survey respondents are the very organizations Hess has funded to make that difference. No grantees could offer a single detail regarding the Hess Foundation’s overall impact beyond their individual programs or organizations. And not a single surveyed or interviewed grantee indicated that he or she had been asked to advise or offer insight regarding how the foundation might do its job better. Only rarely did grantees report being told themselves why they were or were not being supported and whether they were a strategic fit with Hess Foundation priorities:

“Two years ago ... we tried diligently to get [Connie] to be a major funder of our food program. ... She was not interested; she said she was giving all her ‘anti-hunger money’ to [another poverty-focused organization].”

Lacking a sense – at least publicly – of the impact the Hess Foundation seeks, it is impossible to say whether the foundation has been successful. Establishing and sharing a vision and overall strategy would be a necessary and exciting step in the Hess Foundation’s evolution. Currently, grantees and other stakeholders are more likely to report “total surprise” that the Hess Foundation gives at the levels it does in their community. As described throughout this

report, the Hess Foundation is simply not present in the philanthropic landscape the way comparably sized and even much smaller foundations are. In fact, it was common for the grantee or stakeholder to ask the researcher what she was learning about the foundation. Grantees were eager to exchange information with the Hess Foundation.

In fact, its grantees are asking the Hess Foundation to embrace its own and their potential:

“Nothing would make me happier than to be able to have a reporting process ... I want Connie out here to see this thing, because I’m going to blow her away. ... If the Hess Foundation has a role or might have a role, I don’t even know whom to call. ... I would love to be able to say, ‘Hey, be a part of this.’ Or, to know in advance what their target is [so that I know if they don’t want to be a part of it].”

While individual donors, operating anonymously or alone, can have tremendous impact on a city’s skyline or a university’s academic department, community leaders offer a different conceptualization of impact that comes with a different set of possible philanthropic investments, tools and leadership. Unfortunately, a study of the Hess Foundation raises more questions than it answers: Is the Hess Foundation interested in a new concept of impact? Will the Hess Foundation heed an invitation to solve issues rather than simply build (or protect) assets? Is the foundation willing to invest in its own capacity and move beyond checkbook philanthropy?

2. Fewer than two in every 10 grant dollars explicitly benefit underserved communities. Still fewer are directed toward systems change and equity.

Drilling deeper into strategy and impact, this study also asked whether, if at all, the foundation demonstrates a commitment to underserved communities in ways that seek to address the root causes of inequity. NCRP defines inequities as disparate outcomes, impacts, access, treatment or opportunity for underserved communities based on race, ethnicity, income, gender, sexual orientation, disability and national origin, or other disadvantaged populations. While Hess does not self-report grant purpose beyond “general operating support,” a review of grant lists, grantee websites and interviews with a number of grantees suggest that a portion of Hess Foundation’s grantmaking does demonstrate a commitment to underserved communities. According to custom data sets prepared by the Foundation Center for NCRP, 10 percent of Hess Foundation grant dollars awarded in 2012 benefited underserved communities.¹² NCRP’s own three-year analysis of 2010-12 grants estimated that 148 grants, totaling \$5.3 million (17 percent of total grant dollars) seemed to target underserved communities.

In a few cases, Hess grants seem to support systemic interventions aimed at addressing the root causes of inequity. The grantee survey offered respondents 13 options from which to choose the “activities your organization undertook with a Hess Foundation grant.” Out of 100 respondents, 16 chose civic engagement, community organizing or advocacy in response to this question. Of the 16, nine are located in Pennsylvania; five of the other seven are located in New York. This geographic concentration suggests that Constance Williams might direct slightly more grants toward civic engagement, community organizing and advocacy, but altogether, these activities do not appear to represent a strategic focus for the Hess Foundation. Survey responses offer a diverse picture of “who benefits” from Hess Foundation support (see Table 1).

Hess Foundation grantees working in underserved communities represent both traditional social service agencies, such as the Salvation Army, and professional associations promoting and supporting diversity in education and STEM, including the Society of Hispanic Professional Engineers Foundation, National Association for Equal Opportunity in Higher Education and NAACP Legal Defense and Educational Fund. Grants representing a commitment to equity often cross health, education and even arts and culture issues and large institutions. With this in mind, a small portion of Hess' grant dollars might represent "targeted universalism." In a 2008 article entitled, *Race, Place, and Opportunity*, John A. Powell, professor of law and

African American Studies and Ethnic Studies at the University of California, Berkeley outlined the necessity for such an approach:

"What is required is a strategy of 'targeted universalism.' This approach recognizes that the needs of marginalized groups must be addressed in a coordinated and effective manner. ... Only if we address all of the mutually reinforcing constraints on opportunity can we expect real progress in any one factor. My research suggests targeted efforts – ones that target both racial and spatial arrangements – to break this cycle of the racial dimension of the geography of opportunity. ... Only deliberate policy interventions that are sensitive to the structural dynamics of opportunity are likely to be effective in ending this cycle of opportunity segregation."¹³

Table 1: Beneficiary Data Reported in Hess Grantee Survey

Which populations were the intended beneficiaries of your Hess Foundation grant? (Select all that apply.)

Answer Options	Response Percent
Economically disadvantaged populations	45
Children/Pre-K-12 students	36
Young adults/college students	35
Racial or ethnic communities/communities of color	25
Women/girls	23
Families/parents/single parents	20
No specific populations	20
People with disabilities	17
Educators	16

Less than 10 percent:

- People with AIDS
- Aging, elderly and senior citizens
- New Americans/immigrants/refugees
- LGBTQ citizens
- Crime/abuse survivors
- Incarcerated/formerly incarcerated
- Businesses
- Environment/wildlife/oceans and rivers

While terms like "equity" and "targeted universalism" themselves remain ambiguous without clear definitions, it is notable that 37 percent of grantee survey respondents believe Hess Foundation grants are "very effective" at achieving more equitable opportunities or outcomes for underserved communities. Still, a nearly equal percentage (34 percent) of respondents answered "I don't know" to the same question.

Because the Hess Foundation has neither stated goals nor intended outcomes, much is left to grantee interpretation. As mentioned above, grantee interviews revealed that Hess Foundation support, while labeled unrestricted or general operating support, did sometimes advance equity or benefit for marginalized groups. For example, a grant to a museum was understood, through conversations with the donor, to be intended for arts outreach to low-income neighborhoods and schools. Again, grantee

interviews lend color and contour to Hess' grantmaking. During interviews, grantees described how unrestricted support allowed the organization "rare and appreciated flexibility" to expand or deepen efforts to serve diverse or economically disadvantaged communities, to move beyond direct service into advocacy or to add staff or pay for essential overhead:

"[What would I] keep the same? I would keep the ease with which we manage the relationship [with Hess]. We are able to identify what we see happening, there is trust. Trust is so critical and appreciated, it advances the work [and] reduces the labor it takes to raise money. And then the support for reproductive freedom work, for raising minimum wage and public benefits. [We do] politicized work – [and appreciate] having a funder who is courageous enough to support this work."

A small number of survey respondents (14 percent) said that Hess Foundation support encouraged the organization to do collaboratively what it could not have done on its own. Ten of these 14 respondents said Hess Foundation support was essential to their work.

The option of "I don't know" was a surprisingly popular response to all the survey questions; grantee interviews elicited similar responses regarding how the Hess Foundation measures impact, how it exerts leadership and whether or not the foundation cares about equity issues. A full 50 current grantee survey respondents (50 percent) answered "I don't know" to the questions "How impactful is the foundation's work to advance equity?" and "How impactful is the foundation's work to advance systems change?"

Current grantees expressed a desire for the Hess Foundation to pursue impact more openly and strategically. While

many appreciated the hands-off approach and perceived it to emerge from trust and empathy, a few wondered if it represented a lack of interest. One grantee would behave differently if the roles were reversed:

"[If I were CEO], I would have to find out more. I would require more from my grantees ... I would want a report; I would want to know what you're doing; I would want to send people from my foundation to various functions. ... Based on my own personal experience, they haven't done anything like that. ... Send my staff out and say 'is this a good bang for our buck?'... I don't know how many [of its grantees] get grants because of whom they know at Hess. ... I would be more involved with the grantees. ... I really appreciate it when the funder does come to different things ... when they do ask me for very specific, accountable outcomes. ... It gives you the opportunity to look at yourself and say 'we're not doing a good job stewarding this money.' ... Stewardship is the most important part of any development department ... fulfilling your own mission and the mission of the grantor ... If you don't do that, you shouldn't be taking money."

Grantees and other stakeholders echoed the need for more professional, strategic and collaborative pursuit of philanthropic impact embodied in the outcomes criteria that informed this study:

"If [Hess'] agenda is to be more relevant in change-making ... and if they want to do collaborative grantmaking ... how do you get involved as a funder in driving systems change around a certain issue in a cross-sector way? ... If you want to 'move the needle' on an issue of public importance, you need to be learned and [you need to be] playing in the space with many

other colleagues [funders, intermediaries, grantees, etc.]. ... There is a science to it.”

This grantee went on to draw an important and relevant distinction between Hess’ philanthropic approach and the shifting needs in Philadelphia and throughout the United States:

“Philadelphia needs more of the collective impact and social change funders. ... Philadelphia philanthropy and civic leadership is really good at asset building ... We need money to build a regional performing arts center, we need money to build a Constitution Center ... We need money to attract a political convention, we need money and leadership to attract the pope; really good at that stuff. Really not good [when] we need money and leadership to solve a pressing public issue like under-resourced public schools or youth violence or economic inequality. ... We are not really good at that. *Solving issues* and *building assets* are very different things in the world of philanthropy, in the world of civic leadership, and *we have very few players in the foundation community that are actively invested in [solving issues]* [emphasis added]. Several [foundations] would like to be, particularly at the staff level, but not at the board level ... at the ‘ownership of the corpus’ level.”

GRANTMAKING RELATIONSHIPS

While eager to learn more about the Hess Foundation’s strategy and goals, grantees also deeply appreciated that the Hess Foundation’s process did not interfere with, overburden or distract them from their mission:

“In the beginning, I might send her a letter or an email, and I’d get a check ... for what I asked for, or for general support, or whatever. [Connie] commiserated because

I was getting one federal cut after another. ... When things have been really hard, [Connie] has been there for us ... I probably get money from most of the foundations in town [Philadelphia], but a lot of them make me work a lot harder for it than she does.”

To be sure, grantees felt great appreciation for Hess Foundation contributions to general operating support, citing these as the most difficult dollars to raise. Moreover, many suggested that the hands-off nature of the Hess Foundation was a welcome relief from cumbersome application processes and labor-intensive reporting requirements. As one grantee said, “One of the things that is refreshing ... is there is really a respect for us and what our ideas are.”

One survey respondent, however, offered the opposite perspective and suggested that the experience grantees have is dependent upon the family member with whom they work: “In general, the donor was very generous but very high maintenance in terms of wanting to be very hands-on but not very available at the same time.”

3. Grantees value the Hess Foundation’s unrestricted support and minimal reporting requirements. However, grantees would welcome opportunities for increased communication, dialogue and partnership with foundation leaders.

The grantee relationship with the Hess Foundation is launched in one of two ways. Grantees reported a first check from the Hess Foundation arriving unexpectedly – “like manna from heaven” – and many still wonder what spurred the Hess Foundation’s interest. Alternatively, when Hess requests a proposal from a nonprofit, the applicant typically submits a letter directly to a trustee or to the trustee’s appointed assistant. Grant checks often arrive after a nonprofit trustee

or staff member happens to cross paths with a Hess trustee or during the traditional “end-of-year” giving season. Among survey respondents, 56 percent indicated that grants from Hess had been “donor-directed” or the result of an individual relationship, most often between a nonprofit trustee and a Hess family member. Thirty-one percent of survey respondents reported that they were asked to submit a request directly to a Hess Foundation trustee.

In an environment that includes foundations that exert explicit strategic influence and even appoint themselves to nonprofit boards, the Hess Foundation’s hands-off approach elicited great support from its own grantees. Studies by Project Streamline suggest that many foundations overburden nonprofit organizations with cumbersome and repetitive application and reporting requirements.¹⁴ The Hess Foundation offers a fine example of streamlined grantmaking. In fact, Hess support most often represents “buyers” rather than “builders” investment, a distinction coined by George Overholser in his article, *Defining, Measuring and Managing Growth Capital in Nonprofit Enterprises*. “Builders,” according to Overholser’s categorization, represent an entrepreneurial, “venture capitalist” approach to philanthropy:

“Building the enterprise (e.g., investing capital toward the creation of a tutoring outfit) requires growth capital and close stewardship. It requires a patient process of trial and error. It is highly technical and has a high risk of failure. More often than not, it requires major shifts in strategic direction, and major shifts in personnel. Also, it is an episodic thing – once an enterprise is built, the builders can go on to other projects. Indeed, it is precisely by dismantling their growth capital ‘scaffolding’ that they prove they have built an enterprise that can stand on its own.”¹⁵

On the other end of the spectrum, and recognizable in Hess Foundation giving, are “buyers”:

“Buying from the enterprise (e.g., exchanging revenue for tutoring sessions) is not about trial and error. It’s about ‘what work will be done in exchange for my money?’ It isn’t about changing what the enterprise does; it’s about asking the enterprise to do more of what it already knows how to do. So it’s not about risk, or about shifts in strategy. It’s about ‘show me what you do, and how you stack up so I can decide whether I should buy here or go elsewhere.’ Finally, unlike building, buying is an ongoing thing, in the sense that if you buy something once and like it, then you might as well come back for more.”¹⁶

Rarely, Hess family members will build a deeper, more strategic relationship with a grantee; such a relationship, however, seems to emerge from a role on the organization’s board rather than Hess Foundation strategy. Overall, Hess Foundation grantmaking rests at the “buyer” end of the spectrum. The “buyers” approach was lauded in grantee surveys and interviews alike, with many reporting it as, “all too rare.” A study of the Hess Foundation – of any foundation, in fact – would be remiss if it did not amplify this candid feedback from organizations foundations serve. Eighty-five percent of survey respondents described their partnership with the Hess Foundation to be either very or somewhat effective when compared to relationships with other foundations. Survey respondents offered the following comments regarding the effectiveness of Hess Foundation’s relationship with grantees:

- “I am struck by the willingness of the foundation to listen and respond to the grantee and community needs,

rather than pushing its own agenda regardless of the situations our families are dealing with.”

- “Consistency of support”
- “Not being unnecessarily restrictive”

During interviews, grantees shared that they would be eager to develop a deeper relationship with the Hess Foundation. They regretted that few opportunities exist to share the results of their work, to explore common aspirations and to see all their funders collaborate to achieve even greater impact. Yet, grantees gave the Hess Foundation significant leeway when it came to urging different or more strategic engagement. Many used phrases like, “Well, it’s their money” or “I know I wouldn’t want to have to work with my family to give away money.” Even foundation peers are ambivalent when it comes to urging the Hess Foundation to come forward and engage more strategically with others:

“Part of me feels like, if you are giving that much money, it is helpful for others in the philanthropic community to know what you are doing and maybe there is potential for partnering; the other side of me feels like, well, it’s a family foundation, and they can do what they want.”

Nevertheless, grantees were emphatic and unanimous in their appeal to the Hess Foundation to retain its emphasis on relationships, trust and flexible grants:

“I think it really is their willingness to consider anything that we approach them with. We’re used to ... [foundations] that, even if they don’t have a lot of formal guidelines, they do have very specific expectations. In [Hess] case, they’re taking more of the attitude of ‘you’re the folks out there in the trenches doing it, you know what you need.’ ... I wish we could get more funders like them.”

Nevertheless, the detached nature of “buying” has limitations. In the Hess Foundation’s case, the majority of grants support traditional institutions with budgets greater than \$5 million. Such an approach provides little opportunity to directly engage affected communities in creating change. Hess relies heavily upon existing or serendipitous relationships to direct and assess its grants. The Hess Foundation’s relationship with grantees, though appreciated for being low maintenance, seems to leave a great deal of philanthropic potential untapped. When asked, “Has the foundation provided your organization any support, either monetary or nonmonetary, for research, convening, technical assistance, networking or strategic planning?” more than 85 percent of respondents answered, “not applicable.” For those few grantees that have been awarded support for one or more of these activities, the support was described as either “somewhat” or “very” useful. When Hess does engage, it appears to be effective and helpful. But, in the main, these grantees’ comments proved more typical:

- “I have never had any contact with the foundation; our board member is the point of contact.”
- “Their greatest weakness [is that] ... it feels transactional; I don’t want that to sound negative ... but we really wish it could feel like more of a relationship. That’s coming from the staff level perspective because [at the board level], I think it feels incredibly personal.”

While appreciated for its expedience, Hess Foundation grantmaking seems to stem more from its bare-bones operations than from deliberately streamlined, trusting relationships with grantees. [See Appendix A for representative feedback and advice from Hess grantees to the foundation’s leadership.]

INTERNAL OPERATIONS

Apart from personal assistants serving an individual trustee's pursuit of volunteer and professional activities, the Hess Foundation is unstaffed and does not publicize its activities online or in any other way. Though its assets place the Hess Foundation among the largest private, independent foundations in the United States, Hess giving appears to evolve exclusively from three Hess family members' admirable, yet singular, life stories, personal relationships and professional interests.

All Hess Foundation trustees are white and all range in age from 61 to 80. Three of the five Hess Foundation board members are family members; the remaining two are individuals with strong personal and professional ties to the family. As noted earlier in this report, the two nonfamily board members do not appear to be directly involved in grantmaking decisions. Board members are not compensated for their service.

One can hope, but cannot assume, that the Hess Foundation is guided by ethics documents including a conflict of interest policy, code of conduct policy and whistleblower procedures. NCRP found no evidence that the foundation fails to abide by these kinds of policies, but also found no evidence that the policies exist.

Even in the insular world of family foundations, the Hess Foundation's lack of transparency is notable and less than ideal. Moreover, the idiosyncratic, opaque nature of Hess' grantmaking process leaves nonprofits and other funders guessing. Oddly, one survey respondent shared, "We're not aware of ever being a grantee." In fact, 100 percent of foundation peers interviewed were surprised to learn that the Hess Foundation contributes at the levels it does and to some of the same organizations these funders

knew well. Individual trustees – especially John Hess and Constance Williams, and their late parents – are known as business leaders, volunteers and public servants, but the Hess Foundation as an institution is not.

A seasoned Philadelphia foundation president captured Hess Foundation's institutional identity this way:

"Hess is a name that almost never comes up here [in Philadelphia]. ... I don't think they're perceived to be a local funder. ... If you access Connie, it's a vehicle she can direct money through. ... To the best of my knowledge, they are not a member of [a regional association]. ... For \$17 million in giving, I think that would surprise just about everybody."

Conversely, many of those interviewed are familiar with Hess Corporation's philanthropy. In operation since 1933, Hess Corporation is an American Fortune 100 energy exploration and production (E&P) company that develops, produces, purchases, transports and sells crude oil and natural gas.¹⁷

4. In contrast to Hess Corporation's giving, the Hess Foundation's operations are insular and lack transparency. As a result, the foundation remains a mystery to potential nonprofit and philanthropic partners and misses opportunities to exercise leadership and amplify impact.

As often as not, family foundations initiated from success in business share common values and issue focus, even if the two entities share no programmatic relationship. While the Hess Foundation and Hess Corporation share no formal ties, the two entities could benefit from sharing more. Unlike the Hess Foundation, the Hess Corporation website of-

fers specific and detailed articulation of its corporate social responsibility position:

“Social Responsibility, a core Hess Value, describes our commitment to the highest standards of corporate citizenship and creating a long lasting positive impact on the communities where we do business. ... In 2013 our social investment and in-kind contributions totaled \$37 million in education, health and community development projects in more than 16 countries. More than \$19 million of our investment went towards education projects in communities where we operate. We invested \$10 million in community projects aimed at economic development, health and capacity building. Our Social Responsibility Value, Code of Conduct and Social Responsibility, and Human Rights policies uphold the principles in the voluntary initiatives that we endorse and support, and state our commitment to meeting the highest standards of corporate citizenship.”¹⁸

While the Hess Corporation’s board is perceived as insular and contentious, its corporate giving arm has a relatively strong reputation, at least compared with others in the oil and gas industry. A 2012 assessment of corporate citizenship named Hess Corporation one of the top three corporate citizens in the energy sector, along with Chevron and Occidental:

“*Corporate Responsibility Magazine* identified businesses that were leading the way in corporate citizenship in ten industries. The ranking weighed seven different categories relating to each company’s corporate responsibility score. This included: environment (19.5%), climate change (16.5%), employee relations (19.5%), human rights (16%) financial (12.5%), governance (7%), and philanthropy (9%).”¹⁹

In a 2013 interview with AccountAbility,²⁰ a global organization providing corporate responsibility and sustainable development solutions to diverse industries, Hess Corporation Vice President of Corporate Social Responsibility Paula Luff described the corporation’s CSR perspective:

“When I first came to Hess, senior management made it clear that if done well, social responsibility and sustainability present competitive advantages, especially in the extractives sector. Their vision was for our partners, national oil companies and other stakeholders to want to work with Hess because the company is not only a great technical partner and responsible operator, but Hess also leaves countries, states and communities better off.”²¹

Globally, Hess Corporation, along with many other peers including BP and Shell, signed the Voluntary Principles, a 2000 initiative of the governments of the United States and United Kingdom, which urged:

“Companies in the extractive and energy sectors and nongovernmental organizations, all with an interest in human rights and corporate social responsibility ... recognize the importance of the promotion and protection of human rights throughout the world and the constructive role business and civil society – including nongovernmental organizations, labor/trade unions, and local communities. ... [These] voluntary principles ... guide Companies in maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms.”²²

Hess Corporation is not without its critics, however. The Human Rights Campaign, which monitors companies’ commitment to ensuring equality for lesbian, gay, bisexual and transgender Americans, gives Hess Corporation

its lowest workplace equality scores.²³ Beyond internal employment and operational standards, Hess has received criticism from environmental advocates. Particularly in North Dakota, where Hess Corporation has provided a boost to the economy, concerned residents have pointed to Hess' and other producers' cozy relationships with regulators. Communities have challenged the state's loose regulatory standards and enforcement:

“With spills steadily rising in North Dakota, evidence gathered by *The [New York] Times* suggests that the cooperative approach is not working that well for the state, where the [North Dakota] Industrial Commission shares industry oversight with the state's health department and federal agencies.”²⁴

Viewing oil and gas as the “salvation” for a declining economy, North Dakota regulators have been slow to upgrade their agencies and regulations to account for the arrival of huge global companies. Hess Corporation is noted by the media for paying its fines without appeal and by grantees for contributing quietly to improving the state's educational system.

Both Hess corporate giving and the Hess Foundation have a track record of supporting public health, education, global human rights and health-focused NGOs. In recent years, Hess corporate and foundation gifts separately supported an effort to apply the principles of international development to workforce development in North Dakota. According to a knowledgeable source, Hess Corporation wanted to answer the questions, “What would a multi-million dollar investment look like in North Dakota? What could be done over 5+ years that would leave something lasting in the state?” The answer was a new five-year, \$25 million education initiative, Succeed 2020.²⁵ In launching

this public-private partnership, Hess Corporation's instructions regarding the project were, according to this source, “not to be an advertisement for the Hess Corporation.”

Because John Hess' grantmaking reflects his personal and professional interests, Hess' corporate giving overlaps with John Hess-directed Hess Foundation giving. For example, two of the grantees interviewed for this report did not know whether they should discuss the Hess corporate gift or the Hess Foundation grant. Both gifts supported the same program and, in one case, evolved from relationships with corporate contacts in the Hess Corporation's refinery business.²⁶ Moreover, once the refinery was closed, annual grants from the Hess Foundation ended, along with the gifts from Hess Corporation. Again, apart from a few grants in common, no formal relationship connects the Hess Corporation's giving and its professional staff with the Hess Foundation. Indeed, under Luff's leadership, Hess Corporation's public presentation of its goals stands in dramatic contrast to the Hess Foundation's complete public silence on its goals and strategies. As one stakeholder observed:

“The foundation currently appears to make grants for organizations that match the interests of the foundation's directors. This makes it difficult to identify specific strategies and practices; it also means there is no uniform way in which the foundation works with grantees.”

Yet, stakeholders indicated that Paula Luff is an accessible and trusted professional both inside Hess and within philanthropic circles in New York City and beyond. She is active in corporate philanthropy, serving on the board of Philanthropy New York, the city's regional association of grantmakers, and on the Aspen Institute's Business and Society Program, a forum that engages, by invitation, senior

executives “pushing the boundaries of what it means to be a socially, environmentally and economically sustainable company.”²⁷

In contrast, the Hess Foundation has no visible spokesperson, leader or staff. Hess Foundation grantees reported frustration with the lack of access, transparency and what they perceived to be “missed opportunities” to learn alongside the Hess Foundation. Many grantees blamed themselves, admitting that the low-maintenance relationship led them to take the support for granted. Nevertheless, the lack of communication also led most grantees to approach their budgets with a “fingers-crossed mentality,” hoping each year that the check will arrive, but never completely confident that it will. One nonprofit leader’s experience was typical:

“They have [funded our organization] for three or four years, up until the last two years [and I am still not sure what happened]. [A Hess family friend] left our advisory board. ... I don’t know whether that is a coincidence or the reason why shortly after that time, Connie Williams and the foundation ceased to be funders of ours. The times did coincide. I don’t know that that’s for sure. ... I also want to know what are their priority areas, and do they have an investment strategy or a theory of change. ... I would love to know the answers to all of those questions.”

A nonprofit sector expert suggests:

“There should be some public accountability on both sides. The donor elected to take a tax break [to establish the foundation] – when you do that, there should be an assumption that people should be able to look at what you are doing and have some kind of voice in it. ... Any philanthropic source that does not stay in communica-

tion with its grantees cuts off a level of opportunity that is not going to make them strong grantmakers. But, on the other side, stewardship goes both ways. Grantees should also make every effort to create a closer relationship. It’s got to be frustrating for the grantees – you really don’t know how to plan and budget.”²⁸

Finally, another peer foundation reiterated the mysterious nature of the Hess Foundation:

“I don’t have any knowledge of [Hess]. I was shocked to learn how much they give. Some of it is because they give to things we don’t, like the art museum. But, I was shocked and surprised, they do give a lot [to groups that work with our grantees] ... I did not know them until you asked me for an interview. I am active with [a group of arts funders] and no one from Hess comes to that. I interact with people at lots of small family foundations but not with Hess.”

Another Philadelphia stakeholder familiar with the funding environment in the area suggested: “I could imagine that this could be a conscious choice to just stay out of the fray.” Yet, most peers, including this stakeholder, urged Hess to engage more deeply with the philanthropic communities where they give:

“But I also – because I haven’t seen them at the table – [believe that] with that much money comes a fair amount of power and influence; they should be at the table. And the table is different right now. At one time, there seemed to be a bit more camaraderie in addressing policy, etc. But, with Pew [Charitable Trusts] and [William Penn Foundation] making changes, maybe that table has changed. With a mayoral election coming, this may be the time that Hess can step into this kind of role. ... I think they could pattern and leverage that giving with

other grants. A lot of time, people are looking to peers to know what they are doing. Funders look at seals of approval, that other funders are also funding projects.”

One peer foundation suggested that transparency itself is a strategic imperative, especially when you are funding potentially politicized issues:

“For our grantees, there are not enough family foundations giving to these kinds of [advocacy] grantees, so when you see another foundation giving, the impact is far more than just one more grant. It is a clarion call that helps others to see these grantees and understand the importance of funding these groups. And, [our foundation] would be helped a lot by having partners ... it would be great to see the Hess Foundation step forward and show the importance of this work.”

Project Streamline, a project of the Grants Management Network, argues that this under-the-radar mode of operation is simply unacceptable. A 2008 interview with Richard Toth, director of the Office of Proposal Management at the Robert Wood Johnson Foundation and chair of Project Streamline, was not describing the Hess Foundation, but could have been:

“Overall, the fact that there’s such variability in approaches is striking. ... I was also struck that, in 2008, we still have foundations that can be considered the ‘mystery foundation’ – that their guidelines aren’t clearly posted and nonprofits’ proposals often aren’t acknowledged.”²⁹

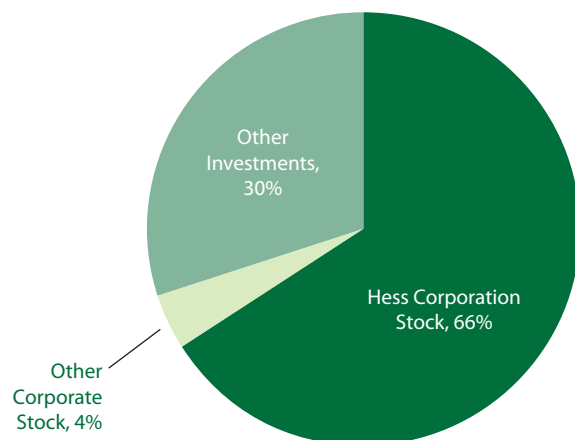
Perhaps, the Hess Corporation’s giving could be a potential source of strategic and professional insight, capable of

guiding the family foundation toward greater transparency, accountability and impact. Family philanthropy is a vehicle quite distinct from corporate giving; yet, the obvious overlap among family members, business interests and values would suggest that the Hess Corporation and even its staff might be a resource for the Hess Foundation. The lack of collaboration between the two entities is all the more remarkable given that, on the financial side, the fortunes of the Hess Foundation are inextricably linked to the fortunes of the Hess Corporation.

5. Both the Hess Foundation and the charitable lead trust (CLT) that provide annual income to the Hess Foundation are heavily invested in Hess Corporation stock. The charitable vehicles and associated investments enable the family to retain ownership of Hess stock, free from capital gains or inheritance taxes, until 2035 when one vehicle, the CLT, is scheduled to revert to Hess heirs. The lack of asset diversification may benefit the Hess family, but it places the foundation’s charitable assets at risk and does not represent best investment practice.

As of 2013, the fair market value of Hess Foundation assets was \$807,050,408, according to the foundation’s most re-

Chart 2. Hess Foundation Investments

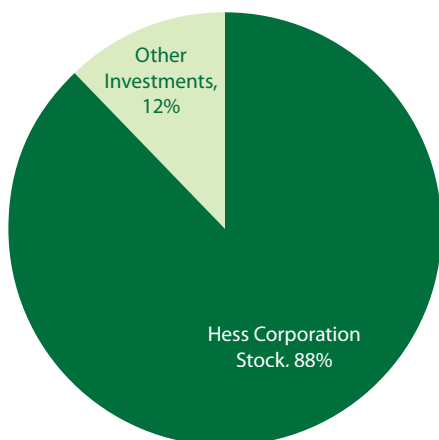


cent 990. Hess Corporation stock accounted for 66 percent of the value of the foundation's assets in 2013, up from 57 percent in 2012 (see Chart 2).

The Hess Foundation's 2013 operating budget was \$2.6 million, the majority of which covers investment and financial management fees. Since Leon Hess's death, the Hess Foundation has received annual gifts of \$32 million from the Leon Hess Charitable Lead Trust and has awarded a total of \$256,746,063 in grants.³⁰ A charitable lead trust is:

"An intermediate legal entity that operates for a period of time between the initial donation by the donor and the ultimate receipt of funds by the charity. In some cases, the charity may never receive the trust principal and the trust continues on a permanent basis. The charitable trust is a legal entity that is monitored by the state attorney general and must function according to established charitable trust laws and regulations. Donors usually have some personal or income tax reason for using a charitable trust as their philanthropic vehicle. From a charity's viewpoint, it is preferable to be the direct recipient of a donor's gift rather than being the beneficiary of a charitable trust."³¹

Chart 3. Leon Hess Charitable Lead Trust Investments



The trust represents even greater concentration in Hess Corporation stock, according to the trust's 2013 CHAR004 New York State annual filing for charitable lead trusts (see Chart 3).

Many family foundations' assets and investments are tied directly to family businesses; even so, the Hess Foundation and Leon Hess Charitable Lead Trust are overwhelmingly concentrated in a single company. When compared to its peers in size, the lack of diversification exposes the foundation's charitable purpose to unnecessary risk. In comparison, Levi Strauss Foundation and Dell Foundation, in spite of each foundation's relationship with a corporate entity, do not invest directly in the corporations from which their wealth came. Diversification better manages risk and volatility and therefore better serves the charitable purpose of each foundation.

While this report cannot speak to the Hess family's intentions, it is clear that both the establishment of the foundation and the charitable lead trust contributed to, rather than diminished, the wealth of Leon Hess' heirs. Media reports at the time of Leon Hess' death suggest that this was a priority for the patriarch. Leon Hess may be best known for his ownership of the New York Jets professional football team. In a move signaling astute estate planning, Hess' will excluded his own family members from purchasing his shares of the New York Jets:

"[Hess] will states that if any of Hess' beneficiaries or their descendants challenge the team's sale, their bequests will be cut by 25 percent. ... Hess said he anticipated that selling the Jets would raise enough money to pay most of the estate's debts, expenses and taxes. ... Hess directed the executors of his estate to 'maximize the value received and minimize the tax cost' from the Jets' sale."³²

Similarly savvy estate planning helped endow the Hess Foundation. In the fiscal year following Leon Hess' death, the foundation's assets increased almost fivefold (from \$11.9 million to \$55.1 million). Each year until 2035, the income earned by the trust is awarded to a charitable recipient – the Hess Foundation. The final payment from the charitable lead trust to the Hess Foundation will be made in 2035, after which the charitable lead trust's assets will revert to Hess' heirs. Until then, John Hess serves as trustee and president of the Hess Foundation and of the charitable lead trust.³³ The trust's assets have grown in value since Leon Hess' death; in 2013, the trust reported assets of nearly \$1 billion, growing by 46 percent in that year alone. The Hess stock owned by the trust currently represents a 3.5 percent stake in the Hess Corporation.

With its charitable intent, this vehicle provides specific tax benefits to the donor:

“In addition to providing a means for benefiting a favorite charity, a properly designed lead trust will produce an estate or gift tax deduction for the donor for the value of that portion of the trust designated for charity. In addition, if the lead trust is structured as a ‘grantor’ trust for income tax purposes, the donor is permitted to take an immediate income tax deduction for the value of charity's interest in the trust.”³⁴

Speaking generally about charitable lead trusts, a family wealth expert suggested that these vehicles allow an individual to skip his or her immediate heirs (grown children, financially secure spouse, etc.), to support future heirs who may not be as well-established financially. David Cay Johnston, a Pulitzer-prize winning journalist and law professor who has written extensively about wealth and inequality, offered a more strongly worded critique of CLTs:

“I have a real problem with charitable lead trusts. CLTs are an efficient and effective vehicle for avoiding taxes while retaining family control of a business. Since the family retains control of the company, the heirs continue to be paid if they work or consult for the company. When the assets are passed down to the children and grandchildren, the trust eliminates or radically reduces estate, gift and capital gains taxes. All gains should be fully taxed without favors to the already rich. The very nature of these tax avoidance devices undercuts the dynamism on which economic vitality depends, a subtle barrier to new enterprises and to wealth based on hard work and merit.”³⁵

We asked another attorney with decades of experience in nonprofit and tax law the critical question of “who benefits?” from the charitable lead trust vehicle:

“The charitable nature of these things gets so obscured. How can tax attorneys keep both the charity and the donor's interests in mind? It is the fox in the henhouse.”

6. The Hess Foundation's “checkbook philanthropy” pays out the legal minimum in grant dollars, is governed by a small, homogenous board and employs no dedicated professional staff. For a foundation of its size and potential influence, the Hess Foundation's operations are atypical and serve to weaken rather than bolster impact.

Kirby Rosplock, PhD, is an advocate, speaker, writer and innovator in family business, family office and family wealth arena. As a fourth generation member and owner of a 130-year-old family business, she is sympathetic to the estate and tax planning issues that often motivate family philanthropy. Nevertheless, she urges all families to see philanthropy as an

opportunity to engage deeply on the level of shared values and a desire for lasting impact, mirroring the perspective of Hess Foundation grantees and stakeholders:

“It would be wonderful if the Hess family – whom I don’t know professionally or personally, so I am speaking more generally here ... would ask of itself, what is your reason for being? Are you here to transfer wealth to heirs or to act charitably? Or a little of both? Whichever the option, that’s fine. But, how can you execute in a way that makes this a meaningful experience, not purely a decision driven by economics and tax avoidance? What I have seen – and I would hope the Hess family is beginning to address this – is that when the next generation comes along, they are the ones who prompt these questions. A big paradigm shift generationally might actually be just what the foundation needs. When that new energy comes in, often a shift comes along, too, and the foundation becomes more focused on its mandate, or may require staffing, leadership and/or advisors to ensure things move the way that the family desires. Even if a family is establishing a foundation only as a way to avoid or reduce inheritance taxes, what I would want to say is that there is so much more to be gained for the family’s human and intellectual capital by working together philanthropically, so much more beyond the financial gain, to live and sustain the family’s values.”³⁶

Should the Hess Foundation choose to pursue strategic impact, productive relationships with grantees and increased transparency, its internal operations most certainly will have to shift from checkbook philanthropy to a new paradigm. The Hess Corporation’s giving might be instructive; it has provided “beyond the grant” support by deploying its professional staff in service of its corporate giving goals. In fact, the Hess Foundation grantee that described the

strongest partnership with Hess Foundation was actually describing a project launched by Hess corporate giving and subsidized with a grant from the family foundation:

“Our work together [is really] a partnership. It’s been viewed as that, even though we are the recipient of the funds. ... Most of the funding we give as sub-grants to the designated organizations in the state. ... What is interesting about Hess’ strategy is that because they’re a business presence in the state, they’re closely attuned to the politics ... they contribute a lot of tax revenue to the state. ... Hess Corporation is willing to use its business presence in the state to further the interest of this philanthropic investment. [Hess] is not holding [anyone] over a barrel ... but it will bring communications resources, policy advocacy resources. ... The corporation has a policy development person ... he was brought in to advise our sub-grantees and us on messages we should begin to develop based on lessons we’re learning from the initiative that should be brought to the attention of legislators.”

In contrast, most grantees and other stakeholders found the typical “checkbook philanthropy” model to be the Hess Foundation’s greatest weakness:

“In a lot of respects the foundation is only at the edge of what it can accomplish. Professionalizing the staffing and allowing the board to embrace more professional staff and stronger governance would take things to a much more impactful level. Right now ... they are basically bank tellers. This transactional type of philanthropy – you’re working at the bottom of your license.”

When asked what would change if the respondent were made CEO of the Hess Foundation, the following answer was typical:

“I would increase transparency on the goals and practices of the foundation. I would consider creating open [requests for proposals] in strategic areas rather than only giving to preselected organizations. I would communicate publicly about lessons learned from relationships with grantees. I would evaluate the efficacy of giving away so many small grants (<\$25,000) versus aggregating those awards into a smaller number of larger grants that may have greater impact on areas of interest.”

Foundation peers, too, could mentor the Hess Foundation during such a paradigm shift. The foundation’s operations stand in stark contrast to similarly sized peers including the Weingart Foundation in Los Angeles and Joyce Foundation in Chicago. Each foundation is comparable to Hess in size and family foundation roots, yet, each maintains a professional staff (Weingart, 16; Joyce, 26). Adequate staffing enables robust operating systems and increased transparency. Weingart shares Hess’ commitment to general operating support but combines it with transparent communications about the foundation’s priorities, which themselves emerge from dialogue with grantees and other community leaders.³⁷ With an openness that acutely contrasts Hess’ operations, the Joyce Foundation just released an online, interactive annual report launched with the following invitation: “What Engages You? A few core beliefs lie at the heart of our work. First, everyone has a stake in the outcome.”³⁸

If a lean operating budget is most desirable, the Woodruff Foundation in Atlanta offers an example of a foundation eager to be frugal³⁹ that nevertheless sustains a staff of 11 to meet its hyper-local mission. Of course, no specific staff size is appropriate or inappropriate in the abstract. Rather, the Hess Foundation must begin to ask itself, as grantees and stakeholders have asked: “Why does the Hess

Foundation give? What impact is it hoping to have? What (if anything) is it learning, and from whom? What would it like others to know?” Based on answers to these and other basic questions, Hess can begin to identify ways to enhance its internal capacity, open up communications, add professional staff and publicize its goals and policies.

Beyond staffing and operations, these questions would likely raise even more questions about how best to leverage the foundation’s sizable resources, both financial and human. While some grantees benefit from Hess Foundation’s networks and staff, most do not. And while some grantees benefit from the active participation and involvement of individual board members; most do not. In fact, two Hess board members seem to serve in name only – a missed opportunity, as one stakeholder instantly recognized. Realizing that former New Jersey Governor Thomas Kean serves on the Hess board, this New Jersey funder noted that while he knew nothing about Hess Foundation, he believed that:

“There is a huge opportunity to leverage Kean’s reputation here in New Jersey; he could be a leader and moderator in some of the issue areas the [Hess Foundation] cares about. He can make a call to get the best and brightest together. In a heartbeat, [my foundation] would respond to a request from Kean for a gathering or thought leadership.”

Before mastering the ability to “work across sectors of society and issue silos in partnership with others to achieve impact” (as described in Philamplify’s assessment criteria)⁴⁰, the Hess Foundation must take the first step of simply working together as a board. Even before addressing the lack of diversity present on the foundation’s board, it might simply engage the board as it currently stands. Family

dynamics may or may not play a role in the board's highly individualized giving; it could just as easily be the result of busy lives and divergent interests. Nevertheless, best practice demands more robust governance than is apparent in Hess Foundation's current operations. In the process, both family and nonfamily members might discover opportunities to honor the family's legacy by achieving greater impact.

Even if the Hess Foundation fails to grow substantially after its final 2035 donation from the Leon Hess Charitable Lead Trust, it will likely reach \$1 billion or more in assets by that time. It is unclear whether the Hess Foundation has already engaged or plans to engage the next generation in Hess Foundation giving. Several grantee and stakeholder interviews suggested that the three Hess family board members have begun to step back from active grantmaking to better engage other family members or staff in the foundation's work. These are hunches, however, and could not be verified.

Publicly, at least, the Hess Foundation has not engaged in strategic or succession planning. When the family is ready, which this report recommends should be

sooner rather than later, advice on "next generation" philanthropic programming, consulting and expertise is readily available, being generated as fast as the Baby Boomer generation is retiring. This field of practice⁴¹ would offer the Hess Foundation insight and examples of how to manage succession, staffing and strategic planning that would bolster its internal operations and, more importantly, enhance the foundation's impact. Undeniably, the time will come when the current trustees – those closest to Leon and Norma Hess, their charitable interests and the foundation's institutional memory – will retire from board service. Beyond the family-focused appeal to ask big philanthropic questions articulated by Rosplock, the Hess Foundation has a responsibility to manage its operations in a way that does not distract or detract from its charitable purpose. Unfortunately, the foundation's "checkbook philanthropy" represents an unacceptable mix of benign neglect and crossed fingers. Such operations pay little respect to current and future grantees and none at all for the public trust to which the foundation owes its existence.

CONCLUSION

The philanthropic, nonprofit, public and private sectors have changed. Throughout society, “transparency” has become a highly valued concept, not just to avoid malfeasance, but to produce greater impact. The last three decades have been marked by the “reinvention of government,” the rise of the Internet, access to so-called big data and a redefining of privacy. With the founding of the Sunlight Foundation in 2006, the pursuit and promotion of transparency in government overlapped with philanthropy, and may have helped to spur interesting questions about to whom, when and why foundations themselves should be accountable. The defeated 2008 California legislation, known as AB 624, would have required foundations with more than \$250 million in assets to disclose the racial and gender composition of their boards and staffs and the number of grants and percentage of dollars going to groups led by and helping members of minority groups. This call for transparency proved a watershed moment in philanthropy.

Since then, the resulting attention on and skepticism about foundation autonomy has marked the sector. Even as foundations rallied to defeat what they viewed as an overreaching campaign, the sector realized that failing to address transparency left the ground fertile for others to do so. NCRP and others have stepped in to assist foundations in engaging with stakeholders, communities and grantees in new ways – as strategic partners. Grounded in best practices for philanthropic impact, the Foundation Center’s Glasspockets initiative is a powerful resource and

incentive to make foundation decision-making, strategies and impact more transparent. The collaborative effort of the Aspen Institute’s Nonprofit Data Project has convened the sector’s data hubs, including the Foundation Center and Guidestar, to determine what, when and how nonprofit practices and finances can become more accessible and compatible.

Many individual foundations – large and small, of diverse types and missions – have tackled transparency by engaging in open, public dialogue and debate with stakeholders and grantees. A lack of transparency is becoming both less common and less acceptable for foundations of Hess’ age and size. Philanthropist and philanthropic leader Laura Arrillaga-Andreessen captures this transition and its relationship to impact:

“We in the philanthropic sector need to operate not just with glass pockets but glass skulls. What I mean by that is we need to be transparent publicly about where it is we are giving our money. But that’s only the first step. Of equal, if not even greater, importance, we need to be transparent about why we made the decisions we made so that other people can benefit from that research as well. Because ultimately it is that knowledge-sharing that enables both the positive influence to fund as well as an also positive influence not to fund specific nonprofits. Every time we make a gift to one organization, we’re simultaneously deciding not to give, indirectly, to countless other organizations. By sharing why we’re

making those decisions, we're enabling other people to direct their resources in a more informed way as well. By having glass skulls, we're breaking down the intellectual silos in which philanthropy has traditionally operated."⁴²

Together, leaders in the philanthropic community are seeking to change the image of the insular, detached funder. If the Hess Foundation wishes to invest in organizations capable of lasting impact, it too must change.

RECOMMENDATIONS

1. Retain the strongest elements of Hess' grantmaking: personal commitment, long-term operating support and manageable reporting requirements that "let grantees do their work." On an individual level, Hess trustees appear to be active, thoughtful and responsive leaders who significantly contribute their time, talent and resources. The freedom and flexibility afforded grantees by Hess Foundation's brand of "checkbook philanthropy" are refreshingly atypical of large foundations. Grantees urge the foundation to continue to trust nonprofits to use Hess funds as they see fit to achieve their mission with minimal paperwork demands.

2. Seek input from peers and grantees to envision the systemic impact the Hess Foundation will have, especially among marginalized communities. While financially substantial and personally meaningful, the Hess Foundation's impact is limited by significant operational, communications and strategic weaknesses. Hess Foundation grantmaking simply represents the bare minimum in terms of philanthropic strategy, openness and impact. Communities facing the most difficult path to social justice can benefit from philanthropy that promotes equity, transparency and cooperation with other sectors. If, in fact, the Hess family's values and public service align with a commitment to social and economic justice, we urge the foundation to develop a strategy that demonstrates that commitment, through

engagement with the larger philanthropic and non-profit community. Stakeholders urge the family to take explicit and deliberate action to move the Hess Foundation toward greater impact.

3. Increase the Hess Foundation's transparency, improve communications and explore opportunities for philanthropic leadership. Invest more deeply in relationships with nonprofits and peer funders. Grantees and other stakeholders are saying "We want to know and work with you," and the foundation should take note. The foundation's grantees are eager to connect more deeply with the foundation's values and strategy and to see the foundation collaborate with other funders to address systemic issues facing the Delaware Valley, New York and New Jersey. When asked what they would change if they were CEO of the Hess Foundation, "stronger communications" and "more transparent strategies" dominated grantee responses. Opportunities abound for the Hess Foundation to engage with grantees, like-minded peer foundations and community leaders. Hess family members need look no further than peer foundations and the corporation's giving program to find examples of more transparent, better connected and well-staffed philanthropy.

4. Increase Hess Foundation payout to NCRP's recommended 6 percent of total assets for grants, plus operating expenses. This increase would allow the foundation to invest in targeted issues and communities while improving internal operations, including professional staffing, communications, governance, succession planning and "next gen" engagement. Plenty of family foundations make significant – not exorbitant – investments in staffing, operations and governance to achieve measurable and sustainable impact. Deeper engagement and operational investments need not detract from personal relationships and serendipitous inspiration. Strong operations and formal policies strengthen grantees' and foundations' ability to plan and steward resources.

5. Diversify the Hess Foundation's investment portfolio to manage risk and volatility while better serving the charitable purpose of this permanent philanthropic resource. Many family foundations' assets and investments are tied directly to family businesses; even so, Hess Foundation and Leon Hess Charitable Lead Trust are overwhelmingly concentrated in a single company. When compared to its peers in size, the lack of diversification exposes its charitable purpose to unnecessary risk. In comparison, Levi Strauss Foundation and Dell Foundation investments, in spite of each foundation's relationship with a corporate entity, do not invest directly in the corporations from which their wealth came. Diversification better manages risk and volatility and therefore better serves the charitable purpose of each foundation.

This report urges the Hess Foundation to embrace these recommendations and move beyond checkbook philanthropy to invest in achieving its own and its grantees' full potential. By following these five recommendations, the Hess Foundation will be poised to achieve far greater impact while continuing to honor Leon Hess and future generations of the Hess family, in collaboration with, rather than detached from, communities.

APPENDIX A

“IF YOU WERE CEO OF THE FOUNDATION ...”

Illustrative Survey Responses with Relevant Recommendations

NCRP asked grantees the following open-ended questions:

- If you became the CEO of the foundation, which grantmaking strategies or practices would you continue to use? What would you maintain about the way you work with grantees?
- As CEO, which strategies or practices would you change in order to increase impact? What would you change about the way you work with grantees?

The following are representative responses, grouped under relevant NCRP recommendations.

RECOMMENDATION 1. Retain the strongest elements of Hess’ grantmaking: personal commitment, long-term operating support and manageable reporting requirements that “let grantees do their work.”

- “I would give multi-year grants up to five years with renewals every two years based on mutually agreed metrics.”
- “Provide large multi-year grants that support an organization’s strategic objectives and track their impact.”
- “Provide multi-year grants to allow for more strategic initiatives and greater impact.”
- “Offering general operating support without reporting requirements is crucial and rare for small nonprofit organizations.”
- “Trust grantee knowledge of subject matter – stay out of their way.”
- “Provide substantial grants for general support and capital needs to further the missions of grantee organizations.”

RECOMMENDATION 2. Seek input from peers and grantees to envision the systemic impact the Hess Foundation will have, especially among marginalized communities.

- “Reduce number of thematic areas, pick two or three areas of focus and go deep in each; engage in three-way conversation – donor, grantee and community/stakeholder – to make final assessment of impact and value of project.”
- “I would increase communications between the foundation and grantees, and make more open the expectations of the foundation in terms of how the funding should be having impact.”

- “Overall, [increase] foundation communication/transparency related to goals, strategies, processes and decisions.”
- “I would increase foundation staff interaction and communication with grantees regarding funding priorities and desired impact and transparency about foundation interests, goals and application/decision-making process.”
- “I would increase transparency on the goals and practices of the foundation. I would communicate publicly about lessons learned from relationships with grantees.”

RECOMMENDATION 3. Increase the Hess Foundation’s transparency, improve communications and explore opportunities for philanthropic leadership. Invest more deeply in relationships with nonprofits and peer funders. Grantees and other stakeholders are saying “We want to know and work with you,” and the foundation should take note.

- “More frequent communication.”
- “Interact with grantees to align interests and work collaboratively to fund specific initiatives.”
- “Be more accessible.”
- “More information about how our work connects with other work and priorities of the foundation.”
- “Knowledge and expertise of subject matter; Facilitate exposure and access to other funders; Provide technical assistance/capacity building.”
- “Closer working relationship between foundation staff and organization staff.”
- “More information available. Make history of funding easier to find.”
- “When working with grantees, it’s always best to hear from the foundation directly and not from an outsourced temp who does not know the history of the relationship.”
- “I would convene regular meetings of grantees to share best practices and expose them to opportunities for funding from other sources.”

APPENDIX B

2010-2012 HESS FOUNDATION GRANTS ANALYSIS

Issues Receiving Significant Support

	2010		2011		2012		3-YEAR		Percentage of all Grant Dollars
	No. of Grants	Total Dollar Amount	No. of Grants	Total Dollar Amount	No. of Grants	Total Dollar Amount	Total Grants	Total Dollars	
Social Services	25	\$1.1M	20	\$1.2M	20	\$1.3M	65	\$3.6M	4%
Health	51	\$4.2M	43	\$5.1M	46	\$7.9M	140	\$17.2M	19.3%
Global	10	\$1.0M (1 grant= \$822K)	8	\$1.0M (1 grant= \$877K)	9	\$1.2M (1 grant= \$850K)	27	\$3.2M	3.6%
Nature Conservation/ Animal Welfare	13	\$437K	10	\$211K	11	\$481K	34	\$1.1M	1.2%
Education	83	\$7.7M	71	\$8.3M	75	\$10.3M	229	\$26.3M	29%
Arts and Culture	45	\$9.9M	46	\$10.8M	55	\$13.3M	146	\$34M	38.2%
Re-grantors (e.g. women's funds/ Jewish Funds)	14	\$355K	11	\$350K	8	\$ 310K	14	\$1.0M	1.1%
Overlapping- Equity Focus	48	\$1.4M	47	\$1.7M	53	\$2.2M	148	\$5.3M	6%

Data analysis conducted by author.

APPENDIX C

HESS FOUNDATION TRUSTEE AFFILIATIONS

JOHN B. HESS

- Hess Corporation, CEO; Former Chairman, Board of Directors
- KKR & CO. L.P., Director of KKR Management LLC and Member of Conflicts Committee
- Lincoln Center for the Performing Arts, Vice Chair, Board of Directors
- New York Public Library, Board of Trustees
- Mount Sinai Hospital, Board of Trustees
- Center for Strategic & International Studies, Trustee
- Deerfield Academy, Board of Trustees
- J.P. Morgan Chase & Co., National Advisory Board
- Harvard Business School, former member, Board of Dean's Advisors
- Dow Chemical Co., former member, Board of Directors
- Wildlife Conservation Society/New York Zoo, former member, Board of Trustees
- Trilateral Commission, North American Group, former member, Board of Directors
- United Cerebral Palsy Research and Educational Foundation, former member, Board of Trustees
- Council on Foreign Relations, former member, Business Council
- NYC 2012 Inc., former Director
- Secretary of Energy, former member, Advisory Board

MARLENE HESS

- International Women's Health Coalition, Chair of Board
- Museum of Modern Art, Board of Trustees
- Rockefeller University, Board of Trustees
- American Museum of Natural History, Board of Trustees
- Jazz at Lincoln Center, Board of Directors
- Lincoln Center Theater, Board of Directors
- The Metropolitan Opera, Managing Director, Board of Directors
- Sesame Street Workshop, philanthropic consultant, Board of Trustees
- Council on Foreign Relations, member, Women and Foreign Policy Program Advisory Council
- J.P. Morgan Private Bank, former Managing Director of Global Philanthropic Service
- Chase, former Director of Not-for-Profit Relations
- Harvard University's David Rockefeller Center for Latin American Studies, former member
- Harvard University's Overseers' Committee to Visit the College, former member
- New York City Partnership's 9/11 Financial Recovery Fund, former member, Capital Committee Task Force
- Mills College, former Trustee

CONSTANCE H. WILLIAMS

- Philadelphia College of Physicians, Fellow
- Philadelphia Museum of Art, Chair, Board of Trustees
- Forum of Executive Women, Friend
- National Museum of American Jewish History, Board of Trustees
- Steppingstone Scholars Inc., volunteer, Board of Directors
- Pennsylvania House of Representatives (149th District), former Representative (1997-2001)
- Pennsylvania Senate (17th District), former Senator (2001-2009)
- Kimmel Center for the Performing Arts, former Governor's Representative, Board of Directors
- Baldwin School, former member, Board of Trustees
- Barnard College, former member, Board of Trustees
- Greater Valley Forge Transportation Management Association, former member, Board of Directors
- Pine Manor College, former member, Board of Trustees
- Terri Lynne Child Care Foundation, former member, Board of Directors
- The Episcopal Academy, former member, Board of Trustees

THOMAS H. KEAN

- National Campaign to Prevent Teen and Unplanned Pregnancy, Chairman, Board of Directors
- THK Consulting, Chairman
- Carnegie Corporation of New York, Chairman, Board of Trustees
- Rita Allen Foundation, Board of Directors
- Former Governor of New Jersey (1982-1990)
- National Commission on Terrorist Attacks Upon the United States (9/11 Commission), Chairman
- Drew University, former President
- National Endowment for Democracy, former member, Board of Directors
- The Robert Wood Johnson Foundation, former Chairman, Board of Trustees
- Educate America, former Chairman, Board of Directors
- Newark Alliance, former Chairman, Board of Trustees
- ARAMARK, former member, Board of Directors
- UnitedHealth Group, former member, Board of Directors
- Hess Corporation, former member, Board of Directors
- Pepsi Bottling Group, former member, Board of Directors
- CIT Group Incorporated, former member, Board of Directors
- Franklin Templeton Investments, former member, Board of Directors

Affiliations as of April 8, 2015.

NOTES

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Philamplify is an initiative of the National Committee for Responsive Philanthropy that aims to maximize the impact of our country's grantmakers. At the center of Philamplify is a series of comprehensive reports conducted by highly regarded researchers assessing foundation grantmaking and operations. Assessments include key findings and recommendations, along with in-depth analysis of foundations' funding strategies and feedback from peer funders, nonprofit leaders, issue experts, community members and more. By making these assessments public, Philamplify seeks to build a culture of transparency, mutual accountability and knowledge sharing.

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