

# Focusing In On An Effective Grantmaking Strategy

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It's a pleasure to be here, and to see both new and familiar faces. I am looking forward to a lively and informative couple of days.

Over the past several years, the **Center for Effective Philanthropy** has contributed to a nascent, as yet poorly understood, but nevertheless discernable drift in the foundation world. You've helped prod us toward an appreciation of how much we need to sharpen our grantmaking if we ever hope to bring about the widespread changes in society to which most of us are committed. Along with that appreciation has come a desire to hold ourselves more accountable – to our boards, first and foremost, but also to the fields within which we work. That desire is healthy and timely, and it's encouraging to see more foundations choosing that path. In time, of course, it may not be a matter of choice. Looking ahead, if we all don't wake up soon, as Joel Fleishman reminded us last year, we may find ourselves worrying a bit more about how we account to the IRS and state Attorneys General.

But for now, at least, there is added fuel to what is still a voluntary trend toward self-examination, greater accountability and effectiveness. And there are signs, here and there, that it's even picking up a bit of momentum. Rather typically for foundations, individual institutions concerned about effectiveness and accountability have been feeling their way forward tentatively, more or less in isolation from one another. Viewed from a perspective that sweeps across this sector as a whole, the resulting changes still seem timid and unorganized. Understandably, each separate institution has focused on areas that suit its particular analysis of the social policy environment, its own experiences and history, its own organizational culture, and the personal interests and perhaps even quirks of its leaders. So it is hard to say whether these separate efforts will add up to a consistent pattern of reform in our sector. Still, it's fair to say that a number of foundations have at least begun to zero in on a range of key areas that beg for attention – including the four that we will be exploring in this seminar: strategy selection, performance assessment, funder-grantee relationships, and foundation governance.

A few well-publicized academic articles and analyses have nudged us along in this work, including those by Chris Letts, Bill Ryan, and Mark Kramer and Michael Porter. A number of consultant groups have also done some important and practical work on strategy development in the not-for-profit world, including Bridgespan, the Monitor Group, New Profit, Inc. and McKinsey. And some foundations have begun to talk about their experiences with one another, although at this point few have enough data to support more than tentative claims of (very) early success. I would place our Foundation in that group. Over the past three years we've made some

fundamental strategic decisions, redesigned our grantmaking operations to realize them, changed our organizational structure and culture to align with our new operations, and set in motion evaluation processes to document, support, and assess all of this. Today, with assets of approximately \$650 million, we will soon be making \$25-30 million in grants each year in our Youth Development Fund, which will be our sole program. Our aim, in that one fund, will be to improve the lives and prospects of young people from low-income circumstances.

Our new grantmaking approach focuses on finding high-performing nonprofit organizations that serve youth, and then working with them to develop business plans aimed at improved programs and significant growth. We make large, multi-year capacity building grants structured against the performance milestones laid out in these plans. In both planning and implementation stages, we offer our grantees expert consultation by our staff and select consultants – to help these organizations set realistic expectations for themselves, and then fulfill those expectations. The goal, overall, is to enable them to become stronger, more sustainable, and able to serve significantly more young people with effective, high-quality services. What all this will add up to over time is yet to be determined. But we're doing everything possible to define clearly what we expect to achieve against some very explicit outcome objectives, and then to achieve those in a measurable way.

Although we have been working in this new way for only three to four years, we've already learned a lot about the importance of all four themes of this conference. In fact, we see them as highly inter-connected, and we consider each of them crucial to the success of our work. I will leave it to the sessions dedicated to each of these elements of grantmaking to probe them in depth. I see my role, in these opening remarks, as one of sharing some experiences germane to a couple of them – and perhaps to stimulate some thinking about these topics to help set up the in-depth sessions. I'd like to focus particular attention on two of them today: strategy selection and funder grantee relationships. Discussions of strategy, in my experience, have too often remained at 40,000 feet – that is, at a highly abstract level. I think it's essential to bring these discussions down to ground level so we can learn from each other what strategy selection and implementation really mean in practice. I'll also want to say a few things about the funder-grantee relationship because, in the end, it is grantees – not foundations – that do the actual work of changing our world for the better. And any grantmaking strategy that is not built on a profound recognition and appreciation of this fact, in my view, is seriously flawed.

The remaining two themes of this seminar – performance assessment and foundation governance — are just as crucial. In fact, they're indispensable to the two things I plan to focus on. Measuring and tracking performance are essential for – among other things – keeping one's operations strategically focused. And well-tailored governance mechanisms are the foundation for selecting, implementing, and holding fast to a strategy. I'm narrowing my list to two items because focus is just as important in giving a useful talk as it is in selecting an effective strategy.

## Selecting and Implementing a New Grantmaking Strategy

In thinking about a new grantmaking strategy, three things were uppermost in my mind:

- The first was the need to improve our focus – to concentrate our relatively small resources better in order to increase our effectiveness.
- The second, no doubt rooted in my previous experiences at **Public/Private Ventures**, was a determination to design a grantmaking strategy where you could know if it was working and, if so, to what extent. I wanted a strategy that not only had a reasonable likelihood of success, but that could and would be evaluated rigorously, so we could make appropriate and timely adjustments, as circumstances required, and say something useful and clear about whatever it was we were learning.
- The third, no doubt based partly on my experience as a grantee, was a conviction that we should no longer design and implement initiatives and programs within the Foundation, and then recruit grantees to do “our” work. Rather, we should focus on building the strength and sustainability of high performing not-for-profit organizations - or those that showed a lot of promise to become high performing. And we would support those grantees with respect and acknowledgement that they knew their business better than we did.

There are, of course, many ways to achieve focus. It can involve narrowing the content areas of one’s work, the operations through which one makes grants, the geographical area within which one awards grants, and so on. We chose to narrow in all three of these ways, and in dozens more, as well. The first decision we reached was to aim all our grantmaking on one content area rather than to continue operating five separate programs. This would allow us to concentrate our limited resources and, we believed, to improve our chances of achieving some impact within that one area. But this also would mean bringing to an end the Foundation’s involvement with its five highly respected programs, with long histories and hundreds of grantees.

This episode in our recent history offers a good example of why foundations find it hard to change how they operate. Starting a new program means ending some old ones. And the old ones usually aren’t bad. They’re all defensible, in traditional terms, and in many cases they’ve done everything they said they were going to do. They are pursuing things that at least some people - including people within the foundation - thought were worthwhile, even inspiring. Re-focusing a foundation’s program means not only putting an end to what might be worthy, unfinished efforts, but something more ominous as well: Creating the impression that this is a foundation that can’t be relied on to stick with its plans.

We were determined to avoid that result as much as possible. Recognizing the enormity of what we were doing, we decided to hold ourselves accountable to our current grantees and to the fields in which they worked to finish the job right. This meant meeting all our commitments to each and every grantee. And more than that, it meant finding ways to exit from all five fields by doing what we could to assure that some of the better work we had supported (in some cases for decades) would be sustained into the foreseeable future.

Although, of course, a foundation has every right to shift its focus or fields of work whenever and however it wants to, and no grantee has a continuing claim on a foundation's resources beyond the terms of its grant, we took "finishing the job" in this way as very much a moral obligation. But it also had a practical basis. Our new grantmaking strategy would rely on learning much more about our grantees than foundations usually do, and then working very closely with them over an extended period of time. So the kind of relationship we imagined we would need to develop with our new grantees could only come about, and only be of value to them, if they could trust us to deliver on what we promised. How could they trust us if we failed, when exiting from our previous work, not only to live up to our grant commitments, but also to see to it that the work we had begun with them – and particularly good or promising work – could continue in some form?

I believe that it's worth underscoring something obvious here. Although this decision seems right and incontrovertibly important, even in retrospect - it also proved to be a real distraction from the new strategic emphasis and focus we were adopting. Moreover, it was far more expensive than if we had simply shut down our old programs in a stroke. And it took far longer to complete our transformation – in fact, for a time we were operating what amounted to two foundations, managing down or finding new venues for our old programs, while at the same time building the new one. Yet we remain convinced that these very real and considerable costs would be essential to our subsequent success.

So, here is a key point I want to make about focused strategy development at foundations - one that has received too little attention: *Developing and implementing a good strategy for new work requires concurrently developing and implementing a good strategy for exiting from the previous work.* And it is hard to overstate the challenges in managing both these tasks simultaneously within one organization.

The next point I should make also seems obvious enough. It is a point that writers about strategy all emphasize - namely, that developing a focused strategy entails making very hard choices. Specifically, one must decide what one will do and therefore what one *won't* do. In developing our new grantmaking approach we made many such choices, all designed to improve our focus and thereby our effectiveness. Rather than try to catalogue all of them, I'll confine myself here to a selective list of some of the most important choices we made, and say a few words about each.

**First:** *Having decided to focus on one area, we selected the "field" of youth development within which to work.* Here we took the tack of investigating opportunities to make a difference, rather than letting need be the final arbiter of choice. Why? Because, sadly enough, desperate need is ever-present and everywhere. And in youth development in particular, the needs are overwhelming. Other fields - those concerned with improving the environment, public health, education, criminal justice, and so on - all have high performing, well-developed institutions that create a sustaining infrastructure. But the so-called "field" of youth development is still primitive at best. It has comparatively few high-performing organizations. It lacks a lot of the fundamentals on which other fields are built, like research-based practice, professional standards, respected training institutions, predictable career paths, and organized funding streams. It doesn't even have much of a public policy context. It should not surprise us, then, that the needs of our country's young people remain largely unmet - certainly those of people from low-income

circumstances. But bleak as this picture is, we decided to work in youth development because we noted the presence of a handful of excellent, high performing, youth serving organizations that work with young people during the non-school hours. And it seemed to us that those organizations, if approached in a new way, could eventually provide us with an opportunity to make a really important and substantial difference. But to do that, we would need to help strengthen them, support their growth, contribute to their sustainability, and work with them to deepen and improve the effectiveness of their work with young people.

**Second:** *Having selected the area in which we would work, our next decision was to support individual nonprofit institutions, rather than trying to help build the youth development “field” as a whole.* This piece of the puzzle fell rather easily into place. One can’t but learn from the Leaning Tower of Pisa not to build in a swamp, where there’s no infrastructure or bedrock, without first doing a great deal of preparatory work. So we decided, for the time being, to find “stepping stones” – those relatively few high-performing youth organizations with high quality, effective programs. And these, we truly believe, offer us an opportunity to make real, substantial contributions to the field - if we can help them gain strength, become more sustainable, and grow. In the long run, we think, such efforts will result in a “critical mass” of high performing, effective, sustainable youth serving organizations that may, in fact, be the best and most direct way to help develop the kinds of field infrastructure to which I just alluded. So we have adopted, at least for now, what we sometimes haltingly call “institution building” as the core of our work; but we do see “field building” as a potential consequence.

**Third:** *Having trained our focus on strengthening individual organizations, we decided to concentrate on those serving young people directly, rather than on intermediary organizations.* There were two reasons for this. First, and I say so regrettably, there really isn't enough of a knowledge base in youth development for intermediaries to carry out what they do best - that is, spreading evidence-based knowledge, good practices, validated standards, professional development, and so on. And second, we wanted our grantmaking to result directly and demonstrably in benefits to young people, especially those from low-income circumstances. The work of intermediaries is inherently - and by definition - indirect in its effects on service recipients. By making grants to youth serving organizations directly, we could establish a plausible, causal sequence through which we could hope to understand the contributions our grants are making to the lives of America’s youth through the organizations that serve them, and do a much better job of actually measuring them.

**Fourth:** *Having decided to work with organizations directly serving youth, we further decided (as I signaled earlier) to invest in building their organizational capacities, rather than aiming more narrowly at support of their programs.* This decision led rather directly to another one: namely, to invest in organizations already performing above the norm, because those would be the ones with the best chance of designing, implementing, and running effective youth services and still building toward significant growth. And they’d be the most likely to use our large investments effectively to that end. There is something of a tension between maintaining quality and aggressively pursuing growth. But that tension can be managed, and achieving both are essential if more young people are to be served well.

**Fifth:** *Having decided to use a capacity-building approach to grantmaking, we chose to define and measure our own success in two ways: First, with indicators that our grantees are developing organizational strength, capacities, and sustainability; and second, with measurements of service improvements and with growth in the numbers of low-income young people being served.* The measures we have chosen - which include assessing program effectiveness, as well as scale – are simple, straightforward, and easy to understand. And they present a minimal burden to our grantees because the data derive from information they are already gathering, or want to gather, for their own management, performance tracking, and self-evaluation.

**Sixth:** *Having decided to work in a capacity-building mode, with high performing, effective youth-serving organizations, we selected four youth outcome areas to support: (1) improved academic skills, achievement, and attainment; (2) successful transition to sustainable employment (for older age youth); (3) avoiding certain behaviors that put young people’s life trajectories at high risk; and (4) civic engagement.* The first three are grounded in solid, social science research. Young people who achieve good outcomes in these areas tend to have good life prospects - satisfying and sustainable jobs, higher incomes over a lifetime, better health, enduring and meaningful interpersonal relationships. Conversely, poor outcomes in these areas predict flat and unsatisfying lives. So the stakes are huge here: we know that helping young people do well in these areas not only sets them up for better lives as individuals, but also drastically reduces the social burden of paying for the remedial and punitive institutions that take over when lives veer too far off course.

It’s probably useful to pause for a moment and remind ourselves why such focused strategic choice-making is so essential. Simply put, a focused strategy:

- raises the odds of higher quality implementation of whatever you’re doing;
- increases thereby the chances of gaining a better result, or worthwhile social yield;
- improves the chances for measuring and evaluating what you've accomplished (if you know what you want to measure, you can indeed design better ways to measure it);
- enables you to assess how you’re doing all along the way, not just after-the-fact;
- creates the context for reflecting on whether and/or when to change what you’re doing-- for instance, making important mid-course corrections more or even to exit from it completely; and
- maximizes the possibilities for meaningful learning that can be usefully shared to improve the larger field within which you are working.

It would be hard to overstate the value of these virtues. And without a focused strategy, it would be hard to achieve any of what I've just described. But there is yet another side to this story.

So far I've emphasized the act of positive choice making in the development of a focused strategy. And I hope I've made clear that arriving at them is very hard work. What I haven't emphasized is that each such affirming choice inevitably entails its obverse – deciding what one won't do. And yet, in our experience, *recognizing the things one won't do, and sticking to this in spite of their obvious (and in some cases even tremendous) appeal, has even more influence on a foundation's ability to achieve focus and sustain it than does the choice of what one will do.*

Making strategic choices and sticking to them has, for us, meant saying No to many organizations that might, by other criteria, be considered excellent grantee candidates. For example, we will not invest in youth development organizations that are start-ups, or in appealing organizations with creative or innovative ideas but too little organizational capacity to execute them. We recognize how essential such organizations are, and that they might at some point generate seminal knowledge that could offer young people a brighter future. But we have to continually keep in mind that we can do just so much with our limited resources, and we therefore must rely on other funders with different grantmaking strategies to make substantial investments there. Else we risk drift, and taking on diversions that start us down a slippery slope of doing nothing very well.

Nor will we invest in intermediary organizations - even those that work constructively in the youth development field. And, having built and served as president of Public/Private Ventures - just such an intermediary - this is a difficult, even painful, decision for me. So far we've done pretty well sticking to our convictions in these matters, but that has not come without great personal soul-searching. It has provoked, more than once, a tinge of regret when we find ourselves sitting with dedicated, passionate representatives of youth development organizations that could well use our support - but simply don't fit the guidelines we've set for our Youth Development Fund. Such occasions are frequent; they take considerable staff time and energy, and like the Sirens of Greek mythology, threaten to pull us off course. We don't follow Ulysses' example and stuff wax in our ears or bind ourselves to our desks...but sometimes it seems as if it would be a lot easier if we did. *And I suspect that the difficulty of sticking to "will not do" decisions is a leading reason why focus is such an elusive goal in much of philanthropy.*

### **Funder-Grantee Relationships – the Good, the Bad, and the Ugly**

On more than one occasion during my years as a grant seeker I can remember thinking to myself, *"funders – you can't live with 'em, and you can't shoot 'em!"* And I can envision today more than one executive director of a nonprofit muttering something just like that while smiling through clenched teeth at yet another foundation program officer when handing over yet another grant proposal that addresses the perceived wishes of the funder, more than advancing the programmatic strengths of his or her own organization.

And it is not just that the funding tilts to the grantmaker's project preferences; it is also that the funding is deficient in providing for the true costs of the work contemplated by the actual grant. The reluctance of funders to pay their fair share for overhead - and a mirrored but somewhat more understandable reluctance by nonprofit executive directors to press for it - involves a dance-like collusion of both funders and their grantees. But it is a destructive dance indeed. It pulls grantees off mission and dilutes their effectiveness. And it weakens them substantially, as they struggle to support themselves by running after program dollars without being able to develop the organizational resources to sustain their work, let alone do more of it, and do it better. Clearly, while funders are the life's blood of nonprofit organizations, often their grantmaking practices are a big part of the problems nonprofits must manage. This is tragic, since it means that the nonprofit sector - the very sector of society that we rely on to mitigate our

most intractable problems – is being weakened and having its potential for effectiveness undercut systematically by those who mean to support and strengthen it.

I think it's probably fair to say that some of the strains between funders and grantees are inherent in what inevitably is an asymmetrical relationship. Foundations have the money, grantees need it, and a power imbalance ensues. This can be meliorated a bit (though admittedly not fully solved) when funders recognize and acknowledge explicitly that for their own success they are fully dependent on grantees. For it is, after all, the work of their grantees that defines the accomplishments of funders. But I would go further and urge that funders examine all of their grantmaking practices through this lens and look hard for ways to make less burdensome the grantee's interactions with the funder.

In our own work we have opted to make the building of grantees' organizational capacity front and center. And this has meant changing our grantmaking operations in rather fundamental ways. I'll list a few here to give you a sense of this:

- Rather than paying grantees to do *our* work, we decided to invest in *them* to do *their* work.
- Rather than hiring program staff with content expertise in youth development, we hired individuals with expertise and leadership experiences in both the for-profit and nonprofit worlds. We chose people who could serve as strategic advisors and organizational development resources to a grantees' executive director and senior team.
- Rather than structuring grants in terms of certain programs we will support, we work with grantees to help them develop and then implement multi-year business plans for their organizations as a whole - plans that codify what they need to do to succeed on their own terms. Then we invest against those plans, and the work that must get done to implement them. Our money generally helps fill gaps and pay for the kinds of costs that non-profits find hardest to support.
- Rather than asking grantees for lengthy narrative process reports, we structure our grants against their business plan milestones and ask them to report pretty much only against these milestones.
- Rather than evaluate grantees' accomplishments from the outside only, we also work with them to develop their own evaluation capacities and thereby to develop and use meaningful performance data to monitor and improve their own work. From their perspective, which is also our perspective, the performance data are there to help them manage day by day.
- And finally (because otherwise this list can go on and on) we have begun what will be an enduring and ongoing process through which an external evaluator will meet with our grantees after each phase of our work with them and probe how *we've* done — whether we have or have not been useful to the grantees, how we might do better by them, and what else we might do that could help them. We have already begun to use this feedback to review our grantmaking operations and think through – yet again – what skills and experiences our staff should bring to the table, and what we might provide grantees by way of technical advisors and consultants.



Each of these elements has many implications and consequences in our work with grantees. None is sufficient by itself, but in aggregate these elements seem to be strengthening our relationships with grantees and increasing the value that they derive from these relationships (beyond the dollars we provide). It does appear that by and large there is more honesty in the foundation's relationships with our current youth development grantees than there generally was with grantees in our previous programs. On the other hand, it is also true that we continue to find many ways in which the power differential inevitably taints aspects of our relationships. The legacy of bad philanthropic practice is not something that is quickly or easily overcome in our sector's day-to-day work. But it is something we should all work on very diligently.

So, in wrapping up, I haven't intended to suggest that the solutions we have adopted are right – or the most likely to succeed. I certainly don't think of them as “best practices,” whatever that even means. For the time being, the most I can (or will) say is that they appear to be good ideas. But I do think we've learned a few things and, for better or for worse, here are a few of them:

- If I've said anything today, it's that “focus, focus, and more focus” – and the discipline that goes into maintaining that relentless focus along many dimensions – is essential for any organization to succeed. We certainly take that message directly to our grantees.
- Next, requiring ourselves to adopt a focused strategy, and thereby focusing our performance metrics on what is essential for us to achieve – is as critical a discipline for both us and our grantees. We also have found that it is essential both for our grantees and ourselves to develop a mechanism that facilitates and guides the alignment and assessment of daily operations against the strategy one adopts. We call this mechanism that links operations with strategy a “theory of change,” and we use it as the organizing construct for all performance assessment.
- Next, the best strategy and theory of change will remain unrealized for any foundation or nonprofit without incredibly skilled and dedicated people to bring them to life – and this still only gives one a “fighting chance” of success. But investing in good people and good organizations is essential for philanthropists interested in successfully bringing effective solutions to this nation's most intractable problems.
- Last, this new way of working that I have described is really hard – both for us and for our grantees. But it is also tremendously gratifying for us both and we would find it very difficult to go back to our former way of working.

I'll close by saying again that it is, for sure, too early to tell how this will play out for us in the end. All the same, we're betting the farm on the hypothesis that there exists a significant causal relationship between how one approaches the four elements that are the grist of this seminar and the effectiveness and yield that one gets from one's philanthropic efforts. But I can promise that, however it does play out, we will continue to share our experiences openly. And I'm hoping, and will be most gratified, if what we learn will contribute something useful to ways that foundations can tailor their grantmaking operations in order to better promote the success and sustainability of their grantees. Because that - finally - is what it's all about.