

"An invaluable resource that distills the essence of strategic philanthropy for those seeking to achieve a greater social impact"
— Bill Gates, Co-chair, Bill & Melinda Gates Foundation

MONEY WELL SPENT

A STRATEGIC PLAN
for SMART PHILANTHROPY

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Book Money Well Spent

A Strategic Guide for Smart Philanthropy

Paul Brest and Hal Harvey
Bloomberg Press, 2008
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Recommendation

Nonprofit enterprises make up a multibillion-dollar sector of the U.S. economy, yet their funding decisions are often shots in the dark. They make a lot of mistakes. Investments that initially seemed inspired do not produce positive, measurable results. Paul Brest and Hal Harvey aim to change all that. Their “strategic philanthropy” process aligns goals, strategy and implementation, and includes accountability and measurements. Their book is full of pertinent, real-world examples that help to bring their points home. Although the guide is theoretical and abstract in parts, *BooksInShort* recommends it to foundation directors and program officers who are tired of wasting their organizations’ money.

Take-Aways

- Charities focus on practical problems; philanthropy looks at the big picture.
- In “strategic philanthropy,” you support projects that have a measurable impact.
- Philanthropic giving created the 911 emergency call system, insulin treatment for diabetes and the profession of nurse practitioner.
- Usually, the results of philanthropy are unpredictable.
- The goal of strategic philanthropy is to receive a predictable “social return on your investment.”
- High-quality grant making requires money, perseverance and a long-term, results-oriented strategy.
- Problem solving entails a “theory of change” about how society drives behavior.
- To stimulate research, some philanthropies have conducted contests.
- Whenever feasible, nonprofit groups should use market systems to deliver their services or products.
- Although passion is an essential element of philanthropy, it is not enough.

Summary

The Problem with Philanthropy

Charities provide immediate relief, while philanthropy focuses on problems’ fundamental causes. “Strategic philanthropy” requires money, perseverance and a results-oriented strategy. Currently, however, because of inadequate initial research, unrealistic expectations, poor implementation or bad luck, many philanthropic investments fail to produce the intended outcomes.

“Philanthropy comes from the heart – from the love of humankind.”

Even well-planned programs may fail. For example, before the Robert Wood Johnson Foundation (RWJF) launched its Fighting Back initiative to reduce drug abuse, it studied the problem for two years. Previous programs had concentrated on stopping the flow of drugs into communities; RWJF's leaders decided instead to focus on coordinating government and nonprofit efforts, and involving communities. They received 300 applications and chose 15 that "linked strategies for prevention, early intervention, treatment and relapse prevention" in communities in which organizations had proven they could deliver services. Between 1988 and 2003, RWJF invested about \$88 million in the project. Yet, after 10 years, an evaluation found no significant decrease in substance abuse. RWJF is unusual among foundations because it evaluates its programs and reports the results to the public; thus, even though Fighting Back failed, it provided useful information about what works and what doesn't.

"Strategy matters in philanthropy, just as it does in investing, running businesses and conducting wars."

In contrast, the Annenberg Challenge invested \$500 million to improve public education in four cities. However, it clung to what an evaluator called "naïve assumptions" and used an "archaic theory." Funders rushed "to get grants out the door" and failed to vet programs or hold them accountable. When new leaders came into a school district, they often undermined the reforms. The Annenberg Challenge's investment produced few good results and little knowledge.

The Importance of Strategy

People and organizations give to charities because they want to solve problems. The issues may be enormous in scale, such as global warming, or quite narrow, such as reducing deforestation in Haiti by providing villagers with an alternative to charcoal fuel. With large projects, measuring results is difficult, failure is frequent and the contributions of individual donors are not always recognizable. Smaller projects are less complex and easier to measure, and a single contributor can make a big difference. Every donor has his or her own level of tolerance for uncertainty and complexity, and need for recognition; therefore, everyone makes different choices about the kinds of projects to fund.

"The basic imperative of strategic philanthropy is to deploy your resources to achieve your goals most effectively."

Although passion is an essential element of philanthropy, by itself, it is not enough. To get the "maximum social return on your investment" (SROI), you must link passion to a clear mission and strategy. SROI is important because it introduces the concept of risk and failure into the grant-making process. Keeping your eye on SROI can help you evaluate whether to participate in a project that is risky, yet that could have significant potential benefits, such as developing a cancer vaccine. Compare the administrative cost of the project with the social benefit it could produce.

Defining Goals

Different kinds of projects require various types of commitments from philanthropic organizations in terms of resources and emotional energy. Visualize social problems as existing along three axes:

1. **"Does the problem diminish the quality of life or does it threaten life itself?"** – Some projects, such as art exhibits or public parks, elevate the human spirit. Others provide necessities, such as food and medicine. Weighing art against medicine is impossible; they are "incommensurable," and although they exist on a continuum, they require quite different strategies.
2. **"How long will the harm persist?"** – Some problems are reversible; others are not, and delays can be fatal. If a species becomes extinct, you can never bring it back. In contrast, a poor educational system has long-term effects, but eventually, if the system improves, they "dissipate."
3. **"What is the scale of the problem?"** – Scale can be either geographic or demographic. Problems can affect anywhere from a particular area to the entire world, and from a few people to millions. Improving a neighborhood park poses different challenges from protecting the Brazilian rain forest. Global problems often involve people and issues that are not local and, therefore, may seem unfamiliar and abstract.

"Philanthropic dollars are often said to be society's 'risk capital'."

Philanthropies communicate their objectives in their mission statements. Grant guidelines give applicants the information they need to decide whether their programs fit a philanthropy's goals. Mission statements and guidelines determine strategy and grant-making policies.

What's the Problem?

Philanthropies generally work on three types of problems:

1. **Something is wrong right now** – For example, the river is polluted and fish are dying.
2. **Something may go wrong in the future** – If a hurricane hits the city, it will flood.
3. **Society is heading in the wrong direction** – Americans must gain a better understanding of other countries and cultures.

"Philanthropy is a field with poor feedback and messy signals – and those signals are often distorted by the pervasive flattery that colors many transactions in the money-giving business."

To solve a problem, you must understand its causes and dimensions. Many people start by addressing the wrong problem, since they mistake symptoms for causes. Or, they frame the issue incorrectly, limiting their ability to see solutions.

Although creative individuals have sometimes made significant discoveries, more often innovation arises when people pool their knowledge. In U.S. philanthropy's century-long history, it has supported extraordinary inventions and social changes, including the 911 emergency call system and the use of insulin to treat diabetes.

"Simply put, impact is making a difference – not in some universal sense, but in terms of your own philanthropic goals."

Solving a problem requires a "theory of change" – an idea about "how the world works" or "an analysis of the causal chain that links...philanthropic interventions to...goals." Like any valid theory, a theory of change must stand upon solid evidence. Some theories that sound plausible turn out to be wrong when you test them.

Once you have a valid theory, you can construct a “logic model,” or a step-by-step strategic plan.

“Albert Einstein got it right when he noted: ‘Not everything that counts can be counted and not everything that can be counted counts’.”

Any plan carries with it certain risks. They can be:

- **“Strategic risks”** – For instance, your logic model doesn’t work.
- **“External risks”** – Something from the outside torpedoes your plans.
- **“The risk of doing harm”** – The project has “unintended bad consequences.”
- **“Organizational risks”** – The group you’re working with can’t make good on its commitment to the project.

“A large proportion of not-for-profit activities and foundation grants fail, not in the sense of the organizations falling apart – though that happens, too – but by having no impact.”

Causing harm is a particularly dangerous risk for Western organizations that work in developing countries. In 1999, the U.N., the Carnegie Corporation and other foundations assembled a constitutional convention in Zimbabwe. Supporters of the dictator Robert Mugabe co-opted the convention, and it produced a constitution that the people of Zimbabwe rejected. The debacle may have strengthened Mugabe’s authoritarian government. The Carnegie Corporation later evaluated the effort, admitting that its failure to realize that Mugabe would never have entered into a constitutional process in good faith had contributed to a worsening situation in the country.

Making Grants

The first step in grant making is receiving a proposal from an applicant organization, which serves as the basis for discussions and negotiations. The proposal should explain the applicant’s strategy; theory of change; organizational risk factors, such as whether it has the resources to complete the task; a due diligence test; benchmarks for assessing progress; and specific, measurable goals. When the grant maker accepts the proposal, it becomes the grantee’s commitment about what it will produce.

“Since philanthropists are essentially investors, their most fundamental form of collaboration is the aggregation of dollars to make things happen on a scale beyond what any single funder could accomplish.”

Grant makers provide either general operating support or project backing. Organizations may use operating support to fund their day-to-day activities, whereas they may use project grants only for certain, restricted purposes. Grantees have the most success obtaining operating support when their goals align with the philanthropy’s. Foundations with small staffs often make grants for operating support.

Measuring Progress

If you think of philanthropy as an investment, then the grant agreement is a contract. In exchange for funding, the grantee agrees to do or produce something specific. To make sure the grantee lived up to its promises, you must measure performance, for example, by requesting reports, conversations or on-site visits.

“Many thoughtful commentators on evaluation caution that efforts to attribute credit for a particular outcome are usually fruitless.”

Consider two issues as you evaluate: whether the strategic plan had the results you intended and whether the project had an effect on the problem. Measuring a program’s outcome can be complex and expensive, but this is when you can determine the SROI. Statistical techniques for assessing impact include randomized controlled experiments, and econometric and observational studies. SROI should take into account the amount of social benefit if the project is successful, the odds of success and the philanthropic contribution, divided by the project costs.

The Pursuit of Knowledge

Some nonprofit groups, such as universities, arts organizations and think tanks, promote the pursuit of knowledge for its own sake. Others support research that has a practical application. When funding research, philanthropies must first determine that the proposed research can solve the problem. They should also assess whether communities have the interest or the capacity to use the research results. They should be prepared for either success or failure.

“Some programs lend themselves better to metrics than others, and some not at all. It would be a tragic error for a philanthropist to distort his or her mission in order to seek only measurable outcomes.”

To stimulate research, some philanthropies have conducted contests. Great Britain used this approach as early as 1714 to find a way to calculate a ship’s longitude. More recently, funders have offered prizes to innovators who flew across the Atlantic, reduced domestic violence, developed an energy-efficient refrigerator or advanced nanotechnology.

“Creativity has been described as ‘recombinant growth’ or ‘effective surprise’ – a process whereby existing knowledge is converted into something that had not been anticipated.”

In addition to knowledge, philanthropies provide goods and services to supplement those available in the market. Nonprofits helped McDonald’s reduce its use of Styrofoam containers. Some subsidize high-risk ventures: The Bill & Melinda Gates Foundation funded the Institute for OneWorld Health to test a medication that would treat the world’s second-most-deadly parasitic disease, visceral leishmaniasis.

When possible, nonprofits should use existing market delivery systems to reach their audience easily and cheaply. But this is not always feasible. Soup kitchens and homeless shelters deliver their services for no charge, through networks that bypass the market.

Nonprofits rely on combinations of donations, volunteer work and earned income. The Salvation Army, for example, receives revenue from its resale shops in addition to donations. America’s Second Harvest feeds 25 million Americans annually with the help of food donations and volunteers. Earned income increases a group’s growth potential and impact.

Change Management

When part of the social system is broken or not working at capacity, “social entrepreneurs,” such as Florence Nightingale, who developed modern nursing, or Maria Montessori, who reformed elementary education, can fill the gap. Philanthropies have supported such large-scale social-change trends as the hospice movement, feminism and population control. Such movements take decades to develop and generally follow an *s*-shaped “innovation curve” that evolves over time, from innovation to growth and adoption, to maturity and decline. Determine where your project falls on the innovation curve to allocate money, manage expectations about results and develop an exit strategy as a program matures.

Analyze your audience and tailor your message. For example, if you are trying to influence policy makers, find out who has the authority to make decisions. Influence corporations with consumer and investor activism.

About the Authors

Paul Brest is the president of The William and Flora Hewlett Foundation and a former Stanford Law School professor. He is the co-author of *Problem Solving, Decision Making, and Professional Judgment*. **Hal Harvey** was a director of The Hewlett Foundation’s Environment Program and is now president of ClimateWorks and of the New-Land Foundation.
