

The California Wellness Foundation

Grantmaking for a Healthier California

Reflections

On Strategic
Grantmaking



The California Wellness Foundation

Reflections is a series produced by The California Wellness Foundation to share lessons learned and information gleaned from its grantmaking practices and strategies. This document and others in the series are available on the Internet at www.tcdf.org.

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We are in the midst of a period of extraordinary growth in the assets dedicated to philanthropic purposes. David Packard's final bequest to his foundation catapulted it instantly into the first tier of grantmaking institutions, while Bill and Melinda Gates' generosity has set a new standard for personal philanthropy. Those two exceptional stories are being repeated on a smaller scale in communities throughout the country. In our field of health philanthropy, the conversion of nonprofit health corporations to for-profit status has resulted in the creation of more than 100 new foundations, a virtual renaissance in grantmaking to improve health and health care.

Paralleling these developments has been the creation of a variety of new organizations whose purpose is not only to study the field of philanthropy but also to provide advice on how best to distribute all those grant dollars for maximum impact. At the center of their inquiry is the question "What is strategic grantmaking?"

Much of what has been said and written on the topic asserts that there is a single answer to this question. Typically, it reflects the viewpoint of large national foundations, which emphasizes focused, multisite, theory-testing grantmaking initiatives to stimulate innovation and advance knowledge in their particular fields of interest. More recently, a number of critics, largely from outside the foundation world, have proposed that emulating the practices of venture capitalists would yield a bolder, more effective and ultimately more strategic approach to philanthropy. Which is "best?"

The California Wellness Foundation is relatively new to grantmaking, having been established in 1992. The initial deliberations of our board of directors dwelt in some detail on the question of what might constitute the most strategic use of the assets with which it had been entrusted. The first generation of our grantmaking focused on five multiyear initiatives, following the lead of more established foundations. We are now in the final stages of a strategic planning process that will guide the second generation of our work. This time, our board has elected a different approach, one that will emphasize core operating support for front-line providers of preventive health services. But the specifics of our new strategy are secondary to our newfound conviction that there is no single strategic approach to philanthropy.

It is a seemingly simple observation, but one we believe is worth making given the proliferation of prescriptions for the "best" way to do grantmaking. Among those engaged in philanthropy, there is a growing community of learners dedicated to improving the way we do our work. The following reflections are offered in the hope that they might prove helpful to others engaged in that process of inquiry, whether they are foundations or individual donors. As always, we welcome your comments.

Tom David, Executive Vice President
The California Wellness Foundation

Reflections on Strategic Grantmaking

By Tom David

The world of private philanthropic foundations encompasses small, family-run funds whose annual giving is measured in thousands of dollars as well as multibillion-dollar concerns employing large staffs of world-class subject matter experts to make their grantmaking decisions. The breathtaking diversity of the field of organized philanthropy is a source of tremendous creativity and vitality. Their approaches to grantmaking may differ dramatically, but I would posit that all of these organizations share a common concern: what is the most effective use of our philanthropic dollars?

Foundations such as ours, whose annual grantmaking budgets run in the multiple millions of dollars, may assume that our decisions hold more gravity than those made by smaller foundations, but we tend to overlook a couple of key facts. First, the vast majority of foundations tend to be relatively small in dollars and local in their focus. And, by virtue of their connectedness to their home communities, smaller foundations have a unique window on what is happening at “ground level.” Moreover, their combined impact on the functioning of the nonprofit sector in neighborhoods throughout the country is many times greater than that of the largest national foundations.

Does that mean that smaller is better? I would argue that it’s inappropriate to generalize one way or the other. Those who work only at the local level can have their own set of blinders that constrict their view of the big picture and limit their ultimate effectiveness. But it does suggest caution when promulgating pronouncements on the most strategic way to do grantmaking. It depends to a great degree on your perspective.

Of particular concern is the growing gulf between the largest foundations with the most grant dollars to offer and front-line agencies charged with directly meeting community needs on a day-to-day basis. In my conversations with the leaders of such nonprofit agencies, I hear strong opinions voiced about their perceptions of the direction they see big foundations taking. Some typical comments include:

“Funders are not open to genuine dialogue and tend to discount what we know. Program officers are more interested in giving us advice than in listening to us.”

“Top-down, foundation-driven initiatives are tying up more and more dollars, cutting down the pool of funds available for unsolicited ideas and grants.”

“Too many foundations are only interested in collaborative efforts, even though there may be good reasons from a local perspective why collaboration is not the only answer.”

Such observations suggest a critical difference between many grantseekers and grantmakers in defining what constitutes strategic philanthropy, particularly in the current environment. Perhaps more significant, these comments indicate a fundamental disagreement about how real impact might best be achieved with philanthropic dollars. One way to characterize these divergent points of view is to differentiate those who believe in the power of ideas, persuasively communicated, to influence policy and compel action (top-down strategies) from those who argue for the power of investment in institutional capacity and individual leadership at the local level (bottom-up strategies).

Large foundations, particularly those with national missions, tend to define strategic grantmaking in top-down terms. They hire staff who are subject matter experts with the expectation that they will provide leadership in their respective fields. They expend significant resources to define problems and develop foundation-initiated programs to meet those identified needs. There is a tendency to support blue-ribbon panels, task forces and reports to analyze issues and articulate recommendations. In so doing, they invest in grantees who are perceived to be intellectual leaders, individuals with the potential to change the way a problem is conceptualized. Finally, they will create new institutions when necessary to advance their agendas.

When community-based organizations are asked to define strategic grantmaking, they typically have a different response. While not negating the importance of public policy work, they are quick to point out that the gulf between policy and practice can sometimes be substantial. Help us build our capacity to sustain ourselves first, they say, and then to innovate, in dialogue with our peers. They argue for investment in key local institutions by providing core support for direct services, helping with capital and equipment needs and funding technical assistance for planning and the development of new business strategies. Nurture local leadership, they suggest, by providing opportunities for professional development and seed dollars for new ideas. Help us to advance our work in ways that government—however well intentioned—cannot.

Frequently, the top-down approach is cited by funders as the most effective way to invest limited grant dollars. It is described as “proactive,” with its practitioners taking the initiative to craft innovative solutions to significant problems and engaging in hard-nosed efforts to measure real outcomes. In contrast, the bottom-up approach is viewed as “reactive,” with funders seen as assuming a relatively passive stance in relation to the universe of grantseekers when it comes to exerting leadership on the issues they have chosen to address. The differentiation among foundation strategies is rarely as clear cut and simple as that, of course, but for the sake of discussion, that is often how it is portrayed.

Is one approach right and the other wrong? I would argue that there are virtues to both, although I prefer the term “responsive” to “reactive.” As for which is *most* strategic for a particular foundation, I suggest that the answer depends on three interrelated factors: its mission; its values and operational philosophy; and the developmental stage of the organization.

MISSION

A grantmaking strategy should emanate from a foundation's unique mission and vision.

For-profit, publicly traded corporations pride themselves on the articulation of inventive and impressive mission statements. Yet beneath the glossy rhetorical surface, they share a rather simple goal: to enhance shareholder value. And their progress toward the achievement of that goal can be measured in precise detail, practically on a minute-by-minute basis. Nonprofit philanthropic foundations are equally fond of bold and lofty mission statements. But in practice, there is no single underlying measure of effectiveness that equates to a for-profit corporation's "bottom line."

Whether it is based on the guiding vision of a living individual donor or on the articles of incorporation resulting from a health care conversion, each foundation has a unique set of expectations that shapes its work. Organizational commitments and ambitions can range from the international stage to a single region or state to one particular community. Programs can encompass multiple diverse fields of interest or focus on one particular topic or age group. The dollars available for grantmaking also influence institutional vision in significant ways.

Given this extraordinary diversity of mission, to assert that there is a single most strategic approach to grantmaking negates a good deal of the potential of philanthropy. Smaller local foundations should not be encouraged to emulate the practices of large national foundations or vice versa. Both have unique contributions to make in their respective arenas. If all funders dedicated their efforts to public policy work or the creation of knowledge, who would attend to the needs of community-based organizations? Where would best practices come from, if not for the support of local-level experimentation and innovation?

The first and most important test of grantmaking strategy is "fit" with the mission of the institution. Clarity of purpose is paramount; implementation should flow from that institutional consensus. Independence of vision has long been honored in philanthropy. Strategy should honor that vision while astutely addressing the current context in which it is being played out. Some foundations will be better at that than others. But I would rather encourage a commitment to learning from their experience than attempt to prescribe the most desirable strategic course for them to follow.

VALUES

Institutional values should be examined, articulated and reflected in a strategic grantmaking approach.

The second test of grantmaking strategy is the degree to which it incorporates the values and operational philosophy of the foundation. How does a foundation see its role? Does it aspire to be a highly visible player in its field, with staff members quoted regularly in the paper and present “at the table” when key policy decisions are made?

Or does it see itself as a partner with the organizations it funds, valuing good listening over prescriptive advice? Alternately, does it prefer to operate largely invisibly, providing assistance with little personal contact and minimal public recognition? Does the foundation aim to articulate a vision for the field, or is it in the business of supporting the visions of others? Each of these examples constitutes a different style of philanthropic leadership. None is inherently superior to the others. They simply reflect quite different sets of institutional values.

What is a foundation’s relationship to the grantseeking community? Does it see itself as an investor, whose goal is to add value to the operations of those organizations it funds? Or does it characterize itself as a service organization, whose most important activity is to help ensure that local nonprofit organizations are able to reach out and work with those most in need? In contrast, does it choose to operate programs itself rather than seeking out local organizations to do so? Each of these examples reflects profoundly different underlying institutional values regarding stewardship and accountability.

Finally, what is a foundation’s operational philosophy about the size and type of staff it chooses to employ? Does it prioritize the hiring of individuals who represent the diversity of the communities in which it funds or does it look first and foremost for subject matter specialists? Is it a “lean and mean” organization that relies on hands-on involvement by board members, or does it feel it is important to have a staff of sufficient size to conduct appropriate due diligence on funding requests and effectively support the work of its grantees? Examples of all types of foundations abound, and staffing patterns are not necessarily correlated with asset size. But they certainly reflect institutional values, and they have significant implications for grantmaking strategy.

DEVELOPMENTAL STAGE

New foundations should keep their grantmaking simple and build credibility before developing extensive strategic plans.

Since much of the advice regarding strategic grantmaking has been directed to new foundations, I think it is worth noting that they face special challenges in this regard. Some new foundations manage to come into being with relatively little fanfare and scrutiny—and to “find their sea legs” without exceptional performance pressure. Others are

not so lucky. Whether it is because of the magnitude of the assets involved or the public nature of their creation—as in the case of a health care conversion—they find themselves in the spotlight. Public expectations plus payout pressures can create extraordinary stress for these new organizations.

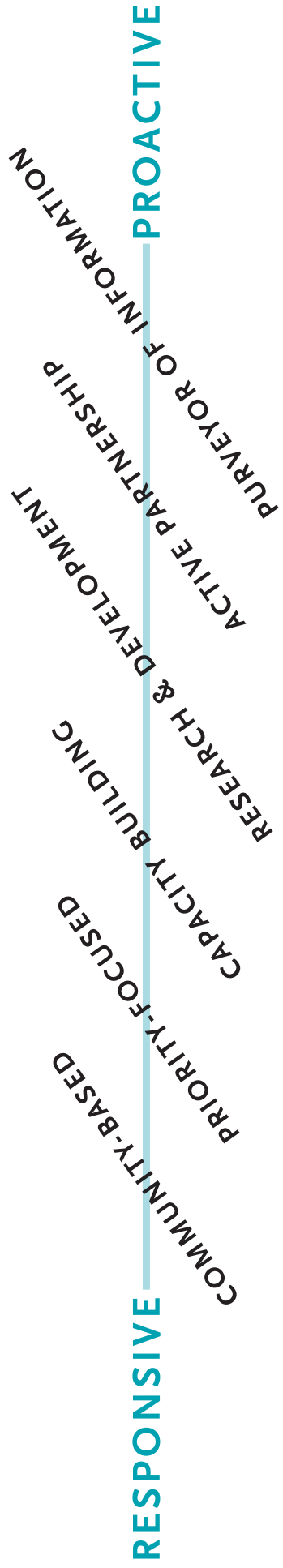
In such cases, there is a potential for institutional paralysis—or worse—when too much emphasis is placed too soon on the nuances of grantmaking strategy. From our own hard-earned experience at The California Wellness Foundation, we recommend that the most important initial tasks should instead be: reaching out to the community to get a sense of its assets and needs; building credibility by being clear about initial funding priorities and keeping expectations realistic; and making friends, at least initially, by supporting existing efforts and organizations. While some have suggested that simply compiling a list of direct service grants constitutes failure for a new foundation, I counter that it is an essential and critical first step toward more mature operations, and infinitely preferable to indecision, inaction and accompanying public perceptions of hubris.

In line with the precautionary principle “first, do no harm,” I suggest that the most strategic initial approach to grantmaking is to keep it simple. The new foundation needs to make choices, and it needs to communicate those choices clearly. Focus on that first, rather than overintellectualizing the infinite array of possibilities or getting bogged down in an endless planning process. Along the latter path lurks the danger that no immediate course of action will be seen as sufficiently strategic within the organization, while outside the walls of the foundation the new enterprise is viewed as insensitive and arrogant. No matter what course of action is chosen, some will find it wanting. That is a fact of life of this work. There is plenty of time later for lessons learned and refinement of grantmaking strategy.

A SPECTRUM OF STRATEGIC APPROACHES

Foundations’ activities tend to exist on a continuum, ranging from responsive to proactive grantmaking, with each relying on different assumptions about their work.

Looking across a variety of foundations, one can identify a number of distinctly different approaches to strategic grantmaking, each formed by the mission, values and developmental stage of the individual organizations. For purposes of discussion, I’ve assigned them labels and arrayed them on a continuum from “responsive” to “proactive.” While operational definitions of those terms vary according to the user, I use “responsive” here to refer to foundation strategies that emphasize connectedness to local needs and priorities as defined and articulated by grantseekers themselves. “Proactive” describes strategies that originate within the foundation as a result of their own analysis and resulting conclusions about the most promising grantmaking tactics.



A spectrum of strategic approaches to grantmaking

These are not pure types—and they are not mutually exclusive. One might observe aspects of different approaches combined in a single grantmaking program. Or a foundation might employ more than one of these strategic approaches in its grantmaking portfolio. No simple scheme like this can capture every possible approach, but the six identified are illustrative examples of the broader spectrum. It is useful to take a closer look at the assumptions that underlie each approach, to see how each emanates from a different definition of what is strategic.

Beginning at the responsive end of the continuum, let's take a brief look at each strategic approach:

Community-based. In an effort to engage directly with the residents of traditionally underserved communities, a number of foundations have made grants directly to individuals or to unincorporated neighborhood organizations such as block clubs and church groups. They have also funded grassroots leadership development programs and organizing efforts. Still other foundations have moved beyond simply establishing community advisory committees to directly involve local activists in their grantmaking decisions. The motivation for this approach is to do everything possible to equalize the power differential between donor and recipient. Unlike most grantmaking, engaging residents directly does not rely on nonprofit agencies as spokespersons for their clients, understanding that the agencies may not actually represent the priorities and beliefs of most local residents. For funders committed to social justice for the disenfranchised or to community building from the ground up, this can be a strategic approach to grantmaking.

Priority-focused. This approach emphasizes responding to requests received from applicants but devotes substantial time and energy to articulating clear funding priorities, both as a way to maximize impact and to make the application process as efficient as possible for potential grantees. Even if a foundation is multipurpose in its mission, it can still demarcate the universe of possible proposals by focusing its attention on a limited number of topics within its announced program areas. Over time, it can draw conclusions about the most effective approaches by assessing cumulative project outcomes. It also gets to really know the organizations that are the key players in its respective fields of interest. The lessons learned can be used to sharpen its focus even further or expand its reach to respond to new opportunities as they arise. For foundations aiming to respond to innovative ideas developed by grantseeking organizations while concentrating their dollars on specific issues, this approach to grantmaking strikes a strategic balance.

Capacity Building. Another way to advance a field of interest or to invest in the well-being of a particular community is to concentrate foundation resources on strengthening and sustaining key nonprofit organizations. Most staff come to nonprofit organizations with a strong sense of mission and training related to service delivery; few have a background in management or organization development. Moreover, since most government and foundation funding is program-specific, nonprofit organizations tend to be undercapitalized when it comes to basic infrastructure. Recognizing that the ultimate success of a program is dependent not only on

talented staff but also on a strong organization, a growing number of funders have established grants programs specifically to enhance organizational effectiveness. Others, including The California Wellness Foundation, have begun to shift away from only funding projects to encouraging grants for core operating support. From their viewpoint, allowing grantees maximum flexibility to meet a variety of organizational needs is a strategic response to a rapidly restructuring nonprofit marketplace.

Research and Development. How can one foster innovation and then bring those new ideas to scale? A number of foundations have addressed these questions by underwriting multisite grantmaking initiatives. The idea for the initiative usually originates within the foundation, but it can also be identified in consultation with experts in the field. Typically, grantees are selected via a competitive Request For Proposals process geared to cast a wide net and identify the most promising candidates across a variety of geographic regions and organizations. An intermediary organization may be employed to manage the initiative for the foundation. Technical assistance may be made available to the sites to help with implementation, and evaluation is an important part of the design to provide formative feedback to the grantees and provide hard data on outcomes. For foundations interested in investing in new ways of doing business and disseminating those findings across a wide audience, these kinds of large-scale demonstration programs are a prime grantmaking strategy.

Active Partnership. Dissatisfied with the limitations of the traditional grantmaker role, some foundations have advocated engaging directly with potential grantees, where the transaction is as much about a transfer of expertise as it is about funding. Some are specifically seeking to emulate the practice of venture capitalists and have suggested a variety of hands-on roles for funders ranging from organizational consultation and involvement in personnel decisions to serving directly on the boards of grantees as part of the grant process. They argue that there are many ways for foundations to add value to the nonprofit sector—and making a grant is only one of them. Accountability for concrete results is also a high priority of this approach, modeled on the corporate approach of monitoring short-term indicators. Entrepreneurialism is held in high esteem as well, and the creation of new ventures is typically seen as more strategic than working with existing organizations. Whether all aspects of this model will translate from the for-profit sector remains to be seen, but there is no question that a number of people in our field view this approach as a cutting-edge approach to philanthropy.

Purveyor of Information. A number of foundations are taking “proactive” to its logical limit, initiating and in some instances implementing all or most of their programs themselves. Rather than funding agencies that provide direct services, they concentrate their resources almost exclusively on the creation and dissemination of information, particularly for a policymaking audience. They focus on large, complicated issues that lend themselves to analysis by experts and may make grants to specialized institutions to conduct and publish those analyses. In some cases,

they hire that expertise in-house and utilize their resources to operate their own programs. At least one has even formally become an operating foundation. In an era where communications technology is becoming more sophisticated by the day, such funders believe that their approach will ultimately yield the most bang for the buck when it comes to systems-level changes.

THE VALUE OF DIVERSITY AND BALANCE

Foundations differ in the choices they make about the best use of their resources, which contributes to the value of philanthropy as a whole.

Viewed in juxtaposition, these approaches present distinctly different operational definitions of strategic grantmaking. Arguments abound regarding their respective efficacy—but that’s healthy. What would be unfortunate, in my view, is if all new foundations chose to follow the same path. The “biodiversity” of organized philanthropy benefits the nonprofit ecosystem as a whole. All of these strategies

are instrumental in different ways to the larger aim of sustaining and advancing the nonprofit sector, and arguments about which is “best” are ultimately counterproductive.

A key component of the ecosystem metaphor is balance. As we enter the second generation of grantmaking at The California Wellness Foundation, balance is a primary principle for our definition of strategic grantmaking. We are a statewide funder, with a mission to improve the health of the people of California by making grants for health promotion, wellness education and disease prevention. Built into our charter is a requirement to utilize half of our grant dollars each year for direct preventive health services, which engenders a commitment to the well-being of front-line health providers. We also see ourselves as a service organization whose role is to be instrumental to the success of those organizations we fund. Although we have funded a significant amount of work in the realm of public policy advocacy and public education, our style is to make grants to other organizations to do that work. We’d rather see their names in the paper, for the good work they’ve done, than ours.

The first generation of our grantmaking focused on five multiyear strategic initiatives, which would fit within the Research and Development strategy described above. We also did a small amount of responsive grantmaking each year within each of our five priority areas and through a substantial Special Projects Fund. While we continue to believe that there are benefits to this approach, we are seeking to balance our commitment to a proactive style with even more responsive grantmaking.

While our initiatives in violence prevention and teenage pregnancy prevention will continue for several years to come, we will also be developing and launching six new grantmaking programs in 2001. In each of those programs, the majority of our annual grantmaking will be for core operating support, with the remainder allocated for innovative projects. In all of our grantmaking, we will also address five cross-cutting themes: underserved populations; youth; public policy; leadership; and sustainability. The Special Projects Fund will also continue to provide an outlet for funding opportunities that fall outside our announced priorities.

Our goal over the next five years is to implement and explore the consequences of a grantmaking portfolio that aims for dynamic balance across several dimensions:

Proactive - Responsive

Long Term - Short Term

Large Grants - Small Grants

Depth - Breadth

Focus - Flexibility

The word “dynamic” reflects our expectation that with the continuing flux in the health care marketplace, no single static strategy is likely to prove successful no matter how creative it may appear. This is but the next stage in the evolution of our grantmaking, after only eight years in business. We view our work as an ongoing experiment, and we are committed to learning as we go and sharing those lessons as we continue exploring what it means to do strategic grantmaking.

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