OUTCOME FOCUSED GRANTMAKING

A HARD-HEADED APPROACH TO SOFT-HEARTED GOALS

THE WILLIAM AND FLORA HEWLETT FOUNDATION

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INTRODUCTION

Every year U.S. foundations and individuals donate nearly $300 billion to charitable causes. Yet this generous contribution toward addressing the world's most pressing social and environmental issues is dwarfed by the scope of the problems. Philanthropists have no choice but to make difficult choices among worthy projects. Determining how to choose the right investments to achieve the most good with limited resources is the first step toward a rational and effective philanthropic strategy.

For the last decade, the Hewlett Foundation has weighed the merits of various analytical approaches to balancing the risks of bad investments against the promise of great progress toward solving the world's critical problems. Increasingly, philanthropies are adapting the tools of the business world to inform their strategic planning, gathering data to undergird theories of change, and employing forms of cost-benefit analysis to estimate social return on investment. The Foundation drew on the most promising of those ideas to create a structured but flexible process known as outcome-focused grantmaking (OFG) to guide its decisions.

OFG is not a formula, let alone a panacea, but rather a framework for analysis and discussion. Properly used, it incorporates program officers' expert intuitions at the same time as it tests them. It avoids over-simplification and rigidity, and maintains an adaptability appropriate for the contingent nature of theories of change.[1] The process balances rigor and flexibility to achieve the maximum benefit from the Foundation's investments while avoiding the pitfalls that often accompany both formulaic and fuzzy grantmaking.

The OFG framework helps the Foundation describe goals and values clearly, make assumptions transparent, and test hypotheses. It calls for methodically estimating the social return on investment, accounting for the inherent risk of alternative strategies, and providing for continuous feedback and rigorous strategy adaptation as plans are carried forward. At the same time, a philosophy of flexibility allows it to adapt to widely varied needs, recognize the importance of qualitative expert input, and avoid false precision.

The benefits of this approach to philanthropy are so powerful that Hewlett Foundation is establishing a culture of OFG cutting across its various programs. Foundation-wide peer-review sessions, frameworks spelling out core competencies, and "worst strategy" contests allow staff to learn from each other, continuously improving their planning and

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[1] Sean Stannard-Stockton, "What's the Evidence for Evidence-based Theories of Change," January 8, 2009. http://www.huffingtonpost.com/paul-brest/whats-the-evidence-for-ev_b_156141.html.

achieving greater outcomes. Decision-making has improved, and grantees report that most Foundation programs have great impact in their fields.[2]

In 2009, when the Foundation's Education Program began considering new directions for its work, program officers turned to OFG to help them sort through a wide range of possibilities, from early childhood education to adult job training. The Program's previous strategy, which focused on California policy, was winding down and the Foundation was interested in pursuing a project with broader scope. The central question was not *which are the biggest problems?* but *where can our limited resources do the most good?*

Following the OFG process, the Program zeroed in on Deeper Learning, a strategy designed to help U.S. students develop the knowledge and skills required to succeed in the job market and civic life of the 21st century. At every step along the way, OFG was employed to weigh alternatives.

This field guide to OFG planning is designed to introduce the philanthropic community to the thinking behind this process and the elements upon which it is built. It will guide the reader through the elements, in order, to illustrate how OFG works in practice and why it has become such an important tool for strategic planning at the Hewlett Foundation.

HOW OFG HELPS THE HEWLETT FOUNDATION ACHIEVE IMPACT

Over the past four years, The Hewlett Foundation has practiced, refined and improved OFG until it has become an essential element of its larger philanthropic approach. The Board and program officers examine dozens of questions when they consider a grant:

- *How, and how much, will this grant contribute to the Foundation's goals?*
- *How does this grant compare to other potential grants?*
- *Can the applicant grantee carry out the work they have proposed?*

Answering such questions is essential to making good decisions.

OFG offers a methodical way to approach those questions with a planning structure that introduces ten formal elements to the Hewlett Foundation's larger philanthropic framework. These elements are divided equally between a *strategic plan* and an *implementation plan*. The strategic plan focuses on broad vision and the implementation plan concentrates on action. However, OFG is an iterative process and the elements of both plans work together at various points to reach a program's ultimate goal. As shown in Figure 1, the resulting strategic plan and implementation plan are two parts of effective grantmaking.

Typically, the process starts with direction from the Foundation's Board, which selects areas of interest based on factors such as the Foundation's mandate, values, funding, and time horizon. These decisions involve choices among incommensurable goals and are not subject to a cost-benefit analysis. The Board determines the Foundation's goals and gives staff a vision for how to achieve them.

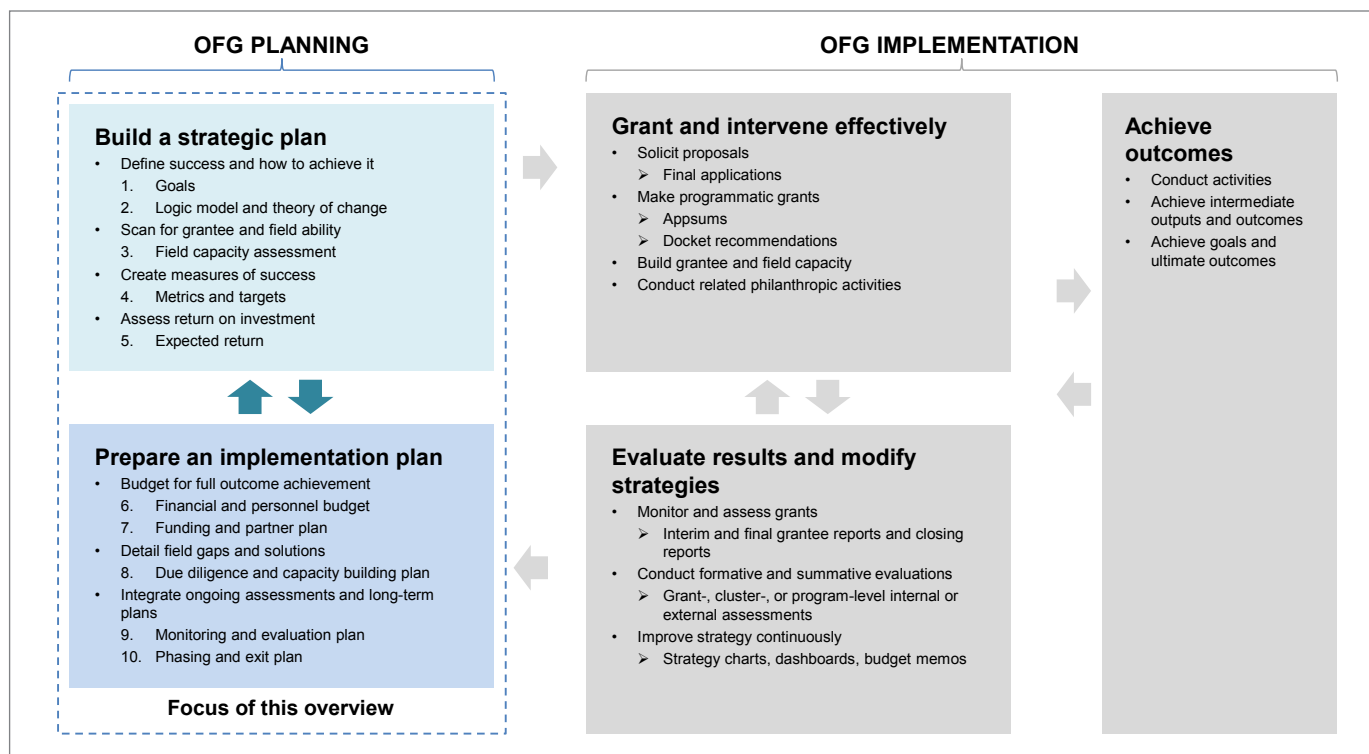[2] Center for Effective Philanthropy, *Grantee Perception Report* (2010).

FIGURE 1 OFG is a key component of the larger philanthropic framework

From that point forward, OFG helps the Foundation describe its goals and values clearly, make assumptions transparent, establish monitoring and evaluation metrics and targets, implement grantmaking portfolios with high expected-return, and adapt strategies.

The Hewlett Foundation's new Deeper Learning initiative demonstrates how OFG planning works in practice. The Education Program knew that the states and federal government were often failing to help students become well-educated, engaged, and economically successful citizens. However, it needed a way to methodically examine different approaches to meeting this challenge. It started by comparing alternative approaches using expected return estimates, choosing to invest in deeper learning for U.S. students from kindergarten through community college. Compared to universal pre-kindergarten or lifelong education for adults, deeper learning provided a higher return on investment.

The Education Program also used OFG to establish a strategic plan for deeper learning. It focused on high-return activities, eschewing investments in community college data systems and teacher assessment systems due to their comparatively low expected returns. In addition to making grants to schools that will serve as models of deeper learning, the Program made significant investments in promoting the Common Core State Standards initiative. The movement toward rigorous academic standards presented an extraordinary tactical opportunity to win the policy and practice changes the Foundation seeks and to promote the improvement of related student assessments.

To date, the Common Core State Standards have been adopted by forty-five states and the District of Columbia, which together serve more than eighty percent of the nation's K-12 students. Moreover, all of those states have joined one or both of the two multi-state test

development consortia with which the Foundation is working to introduce elements of deeper learning into the high-stakes assessments that drive what is taught in classrooms.

HOW OFG WORKS IN GRANTMAKING

The Hewlett Foundation has implemented, refined, and improved OFG over the past four years into an integral part of its larger philanthropic approach.

OFG starts with direction from a foundation's board. The board determines the foundation's broad goals. Staff then collaborate with the board and engage the wider field of grantees, experts, policy makers, and other funders to help set more refined goals, which then guide which initiatives the foundation pursues.

Once an initiative is identified by the foundation board, program staff develop OFG plans to guide grantmaking. At the Hewlett Foundation, OFG planning contains ten elements that cover the major questions that drive grantmaking. Although the elements are described numerically according to their typical flow and divided between the strategic plan and the implementation plan, they work together to reach each program's ultimate goal. Grantmakers typically revise previous elements based on what they learned while developing later elements.

Many of these elements, in various forms, already are commonplace at savvy foundations that place a high value on achieving targeted outcomes. However, OFG remains distinct in its systematic use of a few key analytical elements and a strong focus on outcomes.

Staff use the strategic and implementation plans to guide their decisions and discussions with grantees on outcomes and activities, and evaluate the results of grant activities. These evaluations inform course corrections, which may include minor changes in grantmaking or a more thorough rethinking of the underlying strategic or implementation plans. While the initial OFG planning for each program is a one-time process, the strategic and implementation plans are revised as necessary to include lessons learned from on-the-ground grantmaking experience. Of course, major course corrections are neither simple nor easy. Much like a large ship that takes time to turn, a major grant or strategy may take time to shift direction. OFG does not assume that strategies are refined in one major shift. Rather, it is expected that grantmakers exercise professional judgment in shifting course by providing "tie-off" grants as needed.

To illustrate how OFG planning works in practice, this paper draws on examples (summarized in Figure 2) from the Education Program's Deeper Learning initiative.

THE STRATEGIC PLAN DEVELOPS A BLUEPRINT FOR PROGRAM INITIATIVES, LINKING INVESTMENTS TO OUTCOMES

The first five OFG elements constitute the critical elements of the strategic plan, providing a guide to achieving the desired results.
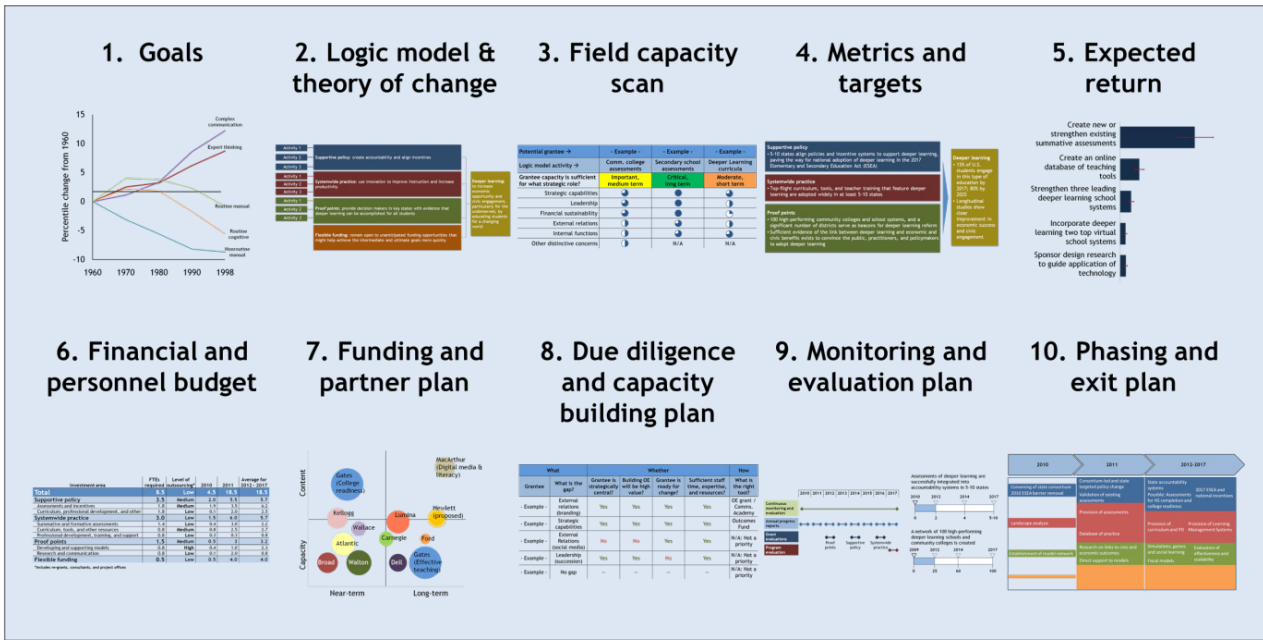
FIGURE 2 Summary of OFG examples from the Deeper Learning initiative

Element 1: Goals

Goals set clearly-defined, specific, achievable, and measureable program outcomes that are broad enough to capture the initiative's long-term aspirations, and tailored to be achievable with the program's resources. The Board sets overarching goals, from which program staff then develop specific goals that a strategy can be based on and assessed against. In addition to measurable outcomes, the goals define the rationale and scope for the program.

For example, in the process of setting its *goals* for improving deeper learning in U.S. schools, the Board of Directors and the Education Program considered numerous skills to target. It chose five that demonstrated the clearest links to deeper learning and had the most support from experts.

The *rationale* for the Education Program's goal choice included the finding that while jobs increasingly require the critical thinking and problem-solving skills associated with deeper learning, 60 percent of business leaders report high school graduates lack these skills. Further, the Deeper Learning initiative builds on the Hewlett Foundation's history of commitment to public education, targets critical objectives, and fits within broader societal support. These and related reasons made for a compelling rationale.

The Education Program also chose a scope for its goals. Although fundamental change in the education experience for every U.S. student is needed, staff recognized that the Program could be most effective by focusing initial grantmaking on a narrow scope, where it was likely to have the most impact.

Element 2: Logic model and theory of change

A logic model and associated theory of change identify what must be done to achieve the program's goals, including the causal connections between grantmaking activities and achieving goals. The logic model takes the form of a tree with the goal at the far right and several levels of intermediate outcomes, activities, and enabling strategies to the left. The theory of change describes what is known and hypothesized in social and natural science that supports the logic model. This can be thought of as the recipe for achieving the intended social change. The success of the logic model, or strategy, depends on the validity of the underlying theory of change.

The Education Program's theory of change contends that achieving deeper learning in U.S. schools will require supportive policy at state and federal levels, the spread of promising instructional practices across the nation, a network of exemplary schools proving the benefits of deeper learning, and the engagement of colleges and universities in establishing standards. It also recognizes the substantial uncertainties associated with the evolution of educational policy and allows the Program to collaborate with other funders.

The logic model outlines a roster of possible activities based on the theory of change. For instance, spreading promising instructional practices is addressed in part by providing assistance to the two consortia of states that won federal funding to develop deeper learning assessments. Given the necessary uncertainty in its development, the logic model will continue to be adjusted as the Program learns and conditions change.

Element 3: Capacity scan

A capacity scan integrates field and grantee capacity into a program's strategy from the beginning. This element is designed to ensure adequate field and organizational capacity to achieve a program's *goals.* It may in turn shape decisions around the program's goals, staffing, and use of regrantors or consultants over the life cycle of its strategy. If a capacity gap exists, the program can weigh the relative costs and benefits of building capacity against the alternative of revising goals or outcomes to avoid that gap. This helps grantmakers avoid developing a strategy that, though seemingly promising, lacks institutions to actually carry it out.

The capacity scan reflects the views of program staff who are in a position to look at potential grantees holistically, informed by field experts and funder colleagues. It looks at two related components: the capacity of the field as a whole, and the capacity of the major organizations in the field.

For the field as a whole, the assessment helps estimate how much field-building may be needed to support a given strategy. The organizational capacity assessment is built around six major measures of grantee capacity: strategic capabilities, leadership, financial sustainability, external relations, internal function, and other distinctive concerns. While each grantee is unique, and different measures of capacity may be more or less important to a particular grantee, these measures are a good starting point. The scan is streamlined, so it avoids using resources that will not lead to significant grantmaking improvements.[3]

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[3] Detailed due diligence that looks at sub-measures of these aspects of capacity comes later in the OFG planning process, in Element 8.

This element is newer to OFG. The Education Program followed an earlier version of OFG that did not include this element.

Element 4: Metrics and targets

Metrics and targets track progress toward a program's objectives. Metrics capture outcome objectives in a short list of practical measures. These metrics contribute to comparisons between potential grants, since each can be measured against the same yardstick. Targets establish levels for the goals the program plans to accomplish with its funding by certain dates, keeping strategies on track. They should be ambitious but achievable. Without metrics and targets, it is impossible to know whether a grantmaking strategy is working or not.

The Education Program followed a few general principles when they chose metrics and targets for the Deeper Learning strategy. First, they chose metrics that matched the *goals*. Second, they chose metrics that focused on students, even if they are more difficult to measure. Finally, they chose targets that were ambitious but attainable.

The metrics all aimed at the same target: Fifteen percent of U.S. students engaged in deeper learning by 2017 and eighty percent by 2025. To get there, the Program calculated that it would require five to ten states to align their policies and incentives to support deeper learning, as well as 100 high-performing community colleges and school systems to serve as beacons for deeper learning reforms. Top flight curriculum, tool and teacher training for deeper learning also would need to be adopted widely.

Element 5: Expected return estimates

Expected return estimates help identify high-impact grants. Expected return estimates are at the heart of OFG because they help grantmakers to choose the highest-return activities within the highest-return approach. Using the estimates, program officers are better equipped to build a grantmaking portfolio that will go the farthest toward accomplishing their goal within the constraints of the available budget and the foundation's tolerance for risk.

Expected return estimates assess activities for their potential benefit, likelihood of achieving that benefit, contribution resulting from the grant, and cost to the program. In practice, expected return is initially estimated for each activity independently. The formula multiplies potential benefit of a project by likelihood of success and the grant's contribution, and then divides the product of that calculation by cost.

- Benefit estimates quantitatively link the action and the desired outcome, measured by the appropriate metric (e.g., student-months of learning progress in the deeper learning strategy). The benefit includes the full potential benefit attributable to the program's grantmaking, assuming the activity is completely successful.

- Likelihood of success represents the probability that the activity will succeed, and is the primary difference between traditional business cost-benefit analysis and expected return on investment as applied to social issues. Making the expected probability of success explicit can help manage and mitigate program risk.

- Cost includes the total philanthropic cost of an activity to a foundation, including staff and other administrative costs as well as grant dollars. Typically, costs incurred by other

private funders or the public are not considered since the program can only optimize its own budget.

Expected return estimates are themselves based on expert judgment, and should be interpreted based on further expert judgment. Even with sometimes-large margins of error, practical experience suggests that expected return estimates generally help program staff make clear assumptions behind grantmaking decisions, learn more about potential investments, compare alternative approaches carefully, and prioritize the highest-return activities based on current information.

The net result is that most funded activities have relatively high estimates of expected return, and almost all activities with low estimates remain unfunded. The Education Program's ultimate funding choices closely corresponded with expected return estimates. It elected to focus on state and federal policy, assessment design, and creation of a network of exemplary schools.

Since the assumptions behind the strategy decisions are far more explicit in this process than is typical for much philanthropy, opportunities to learn from either success or failure are greatly enhanced.

THE IMPLEMENTATION PLAN ENSURES THAT RESOURCES ARE ALLOCATED TO ACHIEVE THE LARGEST POSSIBLE IMPACT OVER TIME

The second five OFG elements form the foundation of the implementation plan, which realizes the vision of the strategic plan and sets the stage for adapting the strategy when necessary. Each element covers a practical detail of carrying out the strategy.

Element 6: Financial and personnel budget

The financial and personnel budget shows how resources will be used over time. Unlike most typical budgets, it describes how particular expenditures are connected to outcomes in the logic model. It also tracks the time program staff will be required to devote to a strategy.

This makes funding tradeoffs transparent and links spending to results. Grantmakers can easily assess how their portfolios are allocating scarce funding between strategies, and watch for signals about when rebalancing might be needed.

In theory, the budget would allocate funding and internal capacity only for the single activity identified as having the highest expected return. However, programs often budget for a mix of projects with high expected returns in order to allow for interdependencies between activities, limitations in grantees' abilities to productively use funds, and other considerations. In addition, flexible funding allows programs to take advantage of emergent strategies and opportunities to collaborate with other funders.

The Education Program drew up a Deeper Learning initiative budget including five activities that ranked at or near the top in its expected return calculations. Advocating making deeper learning a goal for all students in the 2017 federal Elementary and Secondary Education Act was expected to deliver the highest return. But the program staff also found significant value in promoting supportive policy in terms of assessments, incentives, curriculum, and professional development as well as in assisting the design of effective assessments and professional tools, developing a network of model schools, and creating a reserve of flexible funding for unanticipated opportunities.

Element 7: Funding and partner plan

The funding and partner plan recognizes that funding from other foundations, governments, and the private sector may help achieve a program's goals. It also makes any need to attract additional resources explicit by indicating whether external funding and other types of capacity are needed to succeed, and by identifying potential partners. In doing so, it reinforces the need for collaboration to address complex challenges.

For its part, the Education Program staff recognized that other foundations were doing essential work to improved education and provide critical services to disadvantaged students. However, they also spotted a gap to be filled in funding for long-term solutions such as developing new curricula and training teachers how to use it. Their analysis identified where areas of mutual concern provided opportunities to collaborate without duplication with funders such as the Kellogg, Lumina, Ford, and Gates foundations.

Element 8: Capacity building plan

The capacity building plan builds on the capacity scan (Element 3) to set priorities among potential activities to assist grantees. It identifies those of highest value and most likely to succeed and shows which capacity-building approaches can best support grantees. It helps ensure that capacity-building resources are deployed strategically, rather than used on squeaky wheels.

While more thorough than the field capacity scan, the focus of this element is still to provide a practical, low-burden way to identify where capacity building is most needed, and where it is most likely to be successful. The assessment is based on discussions with grantees, consultations with colleagues and other experts, and field visits. The result is a more thorough due diligence process than that undertaken before a program is launched.

This element is newer to OFG. The Education Program followed an earlier version of OFG that did not include this element.

Element 9: Monitoring and evaluation

Monitoring and evaluation (M&E) links directly to outcomes. Many foundations look to monitoring and evaluation (M&E) to help ensure that activities take place as called for by the logic model, desired outcomes are achieved, and adjustments are made as necessary. OFG takes the concept a step further by designing M&E during the initial planning process. This avoids the two most common pitfalls of

attempts to track and assess progress toward strategic goals: starting monitoring mid-way through a strategy and excluding grantees from the development process.

In contrast, OFG establishes consistent metrics and targets for outcomes at every level of grantmaking from the earliest days of a strategy. These metrics and targets can be designed hand-in-hand with grantees, which fosters a trusting relationship based on honest inquiry. Then they can be used to provide consistent longitudinal data and real-time monitoring of progress. Monitoring plans also recognize that strategies are based on assumptions, and testing those assumptions is an important part of improving a strategy over time.

Evaluation plans determine how and when a program will assess whether its strategy is working as predicted. This may involve assessing the soundness of the plan or its implementation. Potential triggers may be identified for a more formal evaluation of activity clusters, the program as a whole, or individual grantees. Plans also help ensure that evaluation resources are used effectively, focusing for example on larger and riskier grants.

Although Education Program staff continuously monitor grants informally and review progress reports from grantees, they also follow an M&E plan that includes three types of monitoring and evaluation process scheduled for different points in the life of the strategy. Annually, progress reports feed into the strategy charts and sliding scales included in the Board's budget materials. Every other year, formal grant evaluations are scheduled to inform possible course corrections. Finally, at the end of the seven years covered by the strategic plan, outside reviewers will evaluate overall progress.

Element 10: Phasing and exit plan

The phasing and exit plan creates a blueprint for when a strategy should shift or conclude. The plan acknowledges likely causes for future shifts in program strategy, establishes criteria for deciding when to shift the program's focus or exit the area, and estimates when the program might be expected to accomplish its current goals. Even in cases where an exit is not planned, there is value to establishing when goals are intended to be achieved.

The Education Program has assumed that its Deeper Learning strategy would have an eight-year lifespan. It also has planned to shift emphasis toward different logic model components over the strategy's life. For example, in 2010 the Program launched Deeper Learning by conducting time-sensitive policy work to ensure that the $350 million in stimulus funding for assessment design was well spent as well as developing early grants for other logic model components. Over time, the focus is intended to turn to state accountability systems along with curriculum and teacher training material. Plans could alter however, particularly if an unexpected direction in the next reauthorization of the federal Elementary and Second Education Act suggests changes to the Program's strategy and timing of investments.

CONCLUSION

The social and environmental challenges facing the world are daunting, and philanthropic resources are limited. Outcome-focused grantmaking provides a structured way to help foundation staff members to pursue sound strategies and continuously improve grantmaking while maximizing the value of spending.