

Effective Philanthropy

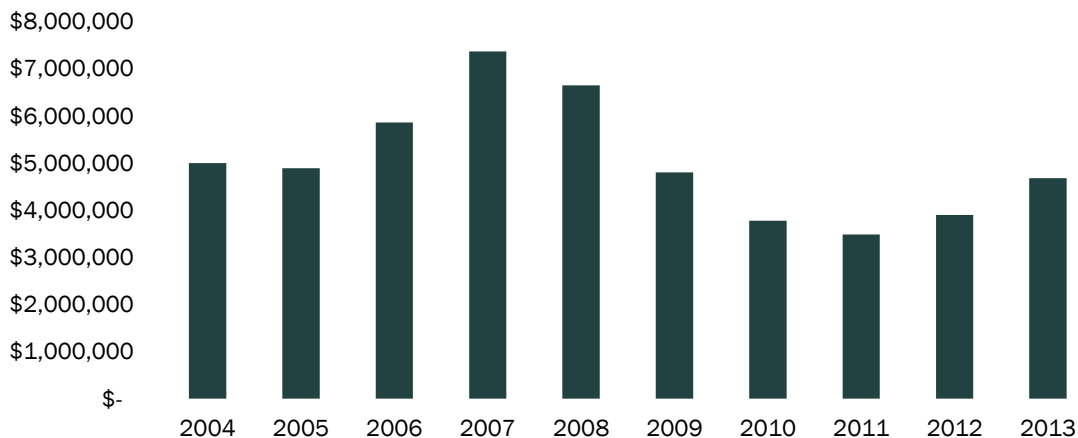
Date: July 1, 2014
To: Hewlett Foundation Board of Directors
From: Fay Twersky
Subject: Philanthropy Grantmaking Program Trends 2004–2013

I. Overview

Grantmaking to strengthen the field of philanthropy began in 2000, when Paul Brest joined the Foundation as president, and was formalized as a program in 2004. It has always been the smallest of the Foundation’s program areas, but it is considered to be “high leverage” because with a few million dollars in grantmaking each year, we potentially influence the effectiveness of many more foundations and many millions more in grantmaking. There are myriad important areas of giving that the Hewlett Foundation does not invest in programmatically—early childhood education, homelessness prevention, mental health and more—and our support for philanthropy infrastructure and effectiveness helps provide better information, tools, and insight to all foundations, regardless of areas of giving, helping the field of philanthropy to be more effective overall. It is a “rising tide lifts all boats” type of strategy.

Since 2004, the annual program budget has ranged from a high of just over \$7 million at the height of the economic boom in 2007 to a low of just under \$4 million in 2010 and 2011 following the economic bust (Figure 1). The current program budget for 2014 is \$6.7 million.

Figure 1. Philanthropy Program Total Annual Grantmaking (in dollars)



Because Philanthropy is a small program, it is affected more by “budget hydraulics.” It has been challenging to give large, multiyear grants, because that would consume a good bit of a year’s budget and limit other important opportunities. The average grant term has stayed fairly consistent over time at 1.2–1.5 years, meaning we have been making mainly one- to two-year grants. The number of grants given annually has generally followed the same trend line as the grantmaking dollars—ranging from a low of fifteen grants in the early days of 2004 when our strategies were in early formation, to a high of thirty-two grants in 2012, when there was significant staff transition (Figure 2). Correspondingly, overall average grant size decreased over time from approximately \$250,000 per grant in 2005–2009 to an average of \$150,000 in 2012 and 2013 (Figure 3, and highlighted across Figures 2 and 3).

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Specifically during the 2012 and 2013 transition years, more small grants were made both by departing staff with their final opportunity to make grants and by new staff trying to get the lay of the land and not yet ready to make bigger bets.

Figure 2. Philanthropy Program Total Annual Number of Grants

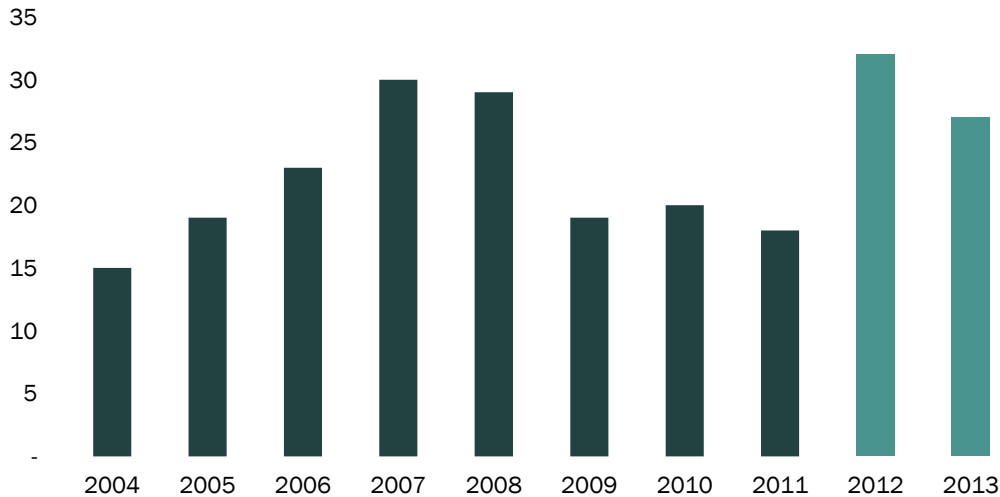
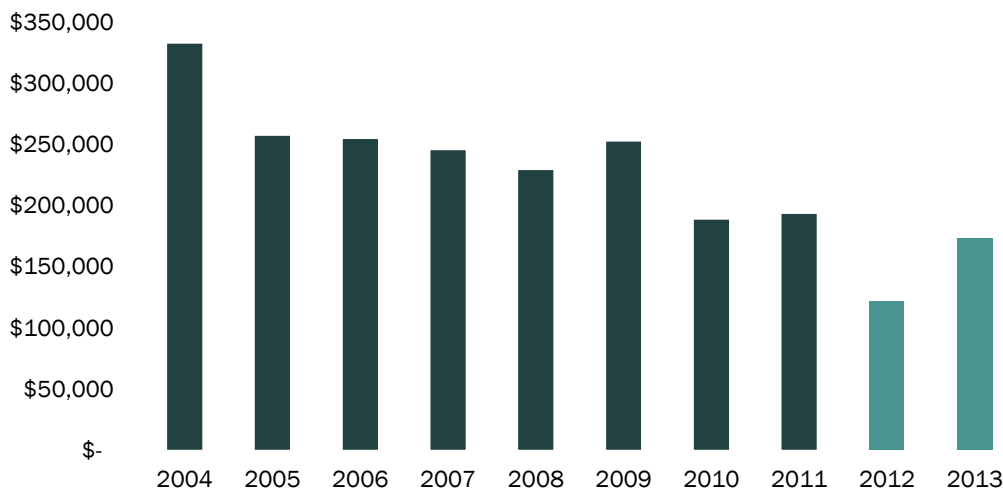


Figure 3. Philanthropy Program Average Grant Size (in dollars)



While one can glean some overarching trends from this cumulative program data—such as the highs and lows of the economic boom and bust—these totals are really the sum of decisions made for different reasons and in the different contexts of each strategy. This is particularly true for GOS. Overall, the percentage of GOS dropped as low as 27 percent of all grants in 2006 and rose to over 70 percent in 2010 and 2011. But these fluctuations are due more to the specifics of our strategies and the organizations we were supporting than to economic swings. In 2006, for instance, over 50 percent of the Knowledge strategy grants were GOS and none of the Nonprofit Marketplace Initiative grants were.

Hence, to better understand nuances in the data, we looked at these measures disaggregated by strategy within the program.

Finally, because the Effective Philanthropy Group also manages the Organizational Effectiveness (OE) grantmaking budget, we look briefly at the OE grantmaking in light of the Grantee Perception Report.

II. Strategic Evolution and Grantmaking

Over the last decade, the Philanthropy program has pursued four separate strategies (Figure 4).



Figure 4. Philanthropy Grantmaking Strategies 2004-2014

1. The **Donor Education strategy** ended in 2010 in response to the economic downturn and the need to cut the budget.
2. The **Nonprofit Marketplace Initiative**, which ended in 2013 following a 2012 external evaluation of the strategy that determined we had not made a measureable impact toward accomplishing the strategic goals and were not on track to do so.
3. The **Knowledge Creation and Dissemination strategy**, which a recently completed, external evaluation confirmed is on track and so is continuing.
4. This year, we launched the **Fund for Shared Insight** together with six other funders. Shared Insight aims to improve philanthropy by providing grants to nonprofit organizations to encourage feedback from the people we seek to help; understand the connection between feedback and better results; foster more openness between and among foundations and grantees; and share what we learn.

A. Donor Education Strategy

The Donor Education strategy has been by far the smallest of the strategies we have pursued to date, accounting for just \$5 million of the Philanthropy Program's \$50 million in grants over the past decade.

This strategy was the Philanthropy Program's first attempt to influence high-net-worth donors to be smarter and more effective philanthropists. The program supported organizations like the

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Philanthropy Workshop West, Rockefeller Philanthropy Advisors, and other philanthropic associations that had donor education as a core part of their mission. While distinct from the Nonprofit Marketplace Initiative, the two strategies were complementary. The Donor Education strategy fluctuated in terms of grant size, duration, and proportion of GOS. We made GOS grants to organizations whose sole mission was donor education, like the Philanthropy Workshop West, but made project grants for donor education to organizations like the Association of Small Foundations, which did other programming beyond education.

When program budgets shrank following the 2008 economic downturn, each program was instructed to cut whole grants on strategies, rather than give all grants a haircut in amount and/or duration. Paul Brest and Jacob Harold, who ran the program at that time, did an expected return analysis on all three strategies and determined that the Donor Education strategy had the lowest expected return. They therefore elected to terminate it. Further, it was never the Foundation's intention to pursue this strategy long-term, but rather to provide seed capital to organizations that could then fundraise more from their own individual donor audiences. For these reasons, Donor Education was the strategy that they elected to terminate in response to the downturn.

B. Nonprofit Marketplace Initiative Strategy

The Nonprofit Marketplace Initiative was a field-building strategy created and led by the Hewlett Foundation. The basic goal of the Initiative was to influence 10 percent of individual donors to shift their charitable giving from lower-performing nonprofits to higher-performing nonprofits using high-quality performance data. Few if any of our Marketplace grantees shared our exact goals in the work, which made it difficult to develop anchor grantees or move from project grants to GOS.

New strategies, especially those led by a funder, often begin with the funder making a greater number of grants that are smaller in size and duration, and are often for project support. Over time, we generally expect that if the strategy is gaining traction, we will begin to make fewer, larger, longer grants and the proportion of GOS will increase. That is not a hard and fast rule, but it is a fairly common trajectory.

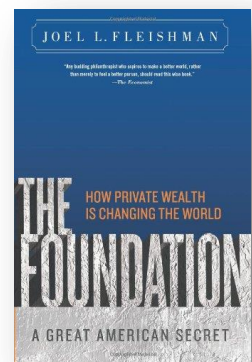
The Nonprofit Marketplace Initiative began with a few large grants as part of the strategy development process, including a grant to McKinsey that was central to the theory of change being formalized in 2007-08. Between 2007 and 2012, the average grant size fell from \$300,000 to a low of \$100,000 in 2012. In addition to grantmaking, the Foundation staff were also involved in brokering some successful mergers and engineering a few collaborative efforts.

We ended the Nonprofit Marketplace Initiative in 2013 after an external evaluation demonstrated no measurable impact. As is typical, this entailed a number of multiyear, GOS tie-off grants to ease the transition from Hewlett Foundation funding. These grants explain an upward spike in 2013 in grant size, term, and proportion of GOS. This trend will continue in 2014 as we make our final tie-off grants to conclude this strategy.

C. Knowledge Creation and Dissemination Strategy

From its inception, the Knowledge Creation and Dissemination strategy has primarily supported existing nonprofits in the sector whose mission and work were well aligned with the goals of the strategy—to produce and disseminate knowledge about how to do philanthropy well. As a consequence, grants under that strategy have consistently had the longest average grant term in the program and have been more likely to be relatively large, GOS grants. Grantees such as the Center for Effective Philanthropy, the Stanford Center on Philanthropy and Civil Society, Grantmakers for Effective Organizations, and The Bridgespan Group produce and distribute research and analysis to advance philanthropic practice. That said, there were exceptions to that rule when specific needs arose. Occasionally, a project grant was used to finance a particular report or research in a specific topic area, such as a 2006 grant to Duke University for costs associated with publishing Joel Fleischman’s book, “The Foundation: The Great American Secret,” or the 2012 grant to the Nonprofit Finance Fund to study pay-for-success financing models like Social Impact Bonds.

We are in the process of refining our Knowledge strategy based on an evaluation conducted in 2013. We have a core set of 10 grantees whom we expect to support with GOS grants. We are experimenting with financial models to see if we can extend renewals of one-year grants to two- or three-year terms. We would prefer these grants to be multiyear, and it is only a result of budget constraints or “hydraulics” that they are not already.

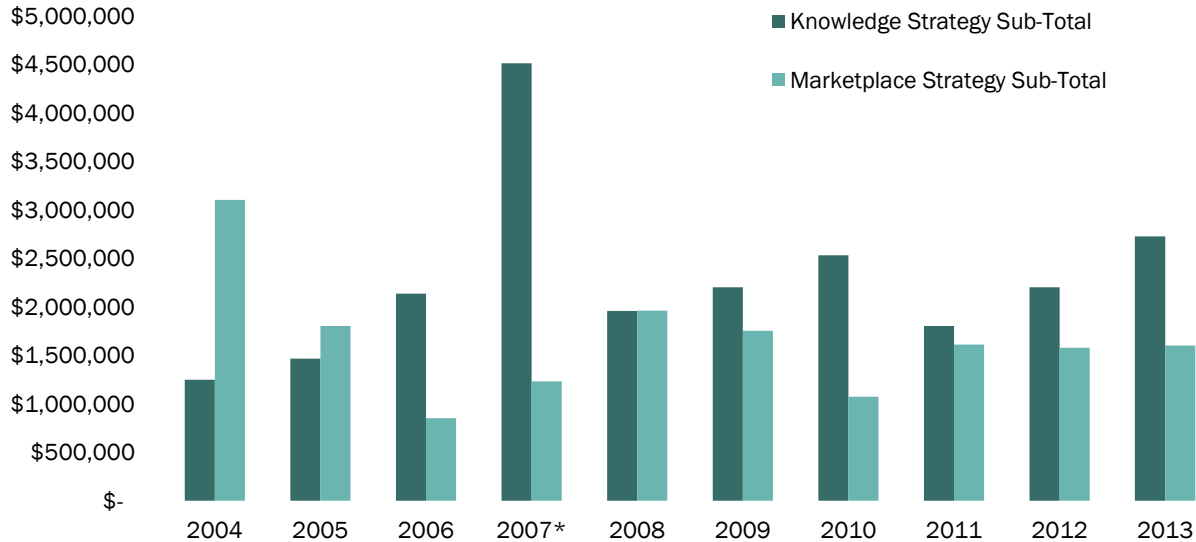


III. Comparison of Grantmaking Trends

A number of distinctive patterns emerge from comparing the grant trends of our Knowledge and Nonprofit Marketplace strategies. Over the last ten years, we granted a total of \$16.5 million as part of the Nonprofit Marketplace strategy and \$22.8 million in the Knowledge strategy. Except in 2004 and 2005, when more emphasis was placed on the Marketplace Initiative, the annual amount of funding has been consistently higher in the Knowledge strategy (Figure 5). In particular, in our peak budget year (2007), grant funding was disproportionately higher in the Knowledge strategy, led by an especially large grant of \$1.5 million to the Bridgespan Group, whose knowledge work was just getting off the ground in a substantial way.

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Figure 5. Philanthropy Program Total Annual Grantmaking by Strategy (in dollars)



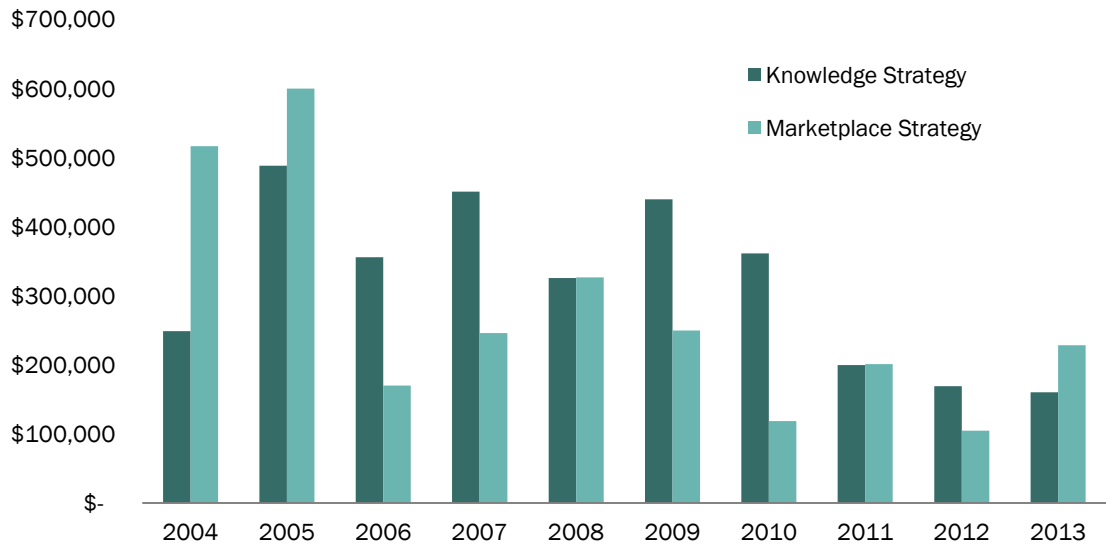
*Includes a \$1.5 million grant to the Bridgespan Group to kick off its work in furtherance of the Knowledge strategy.

Given that the Knowledge strategy is and has always been characterized by strong alignment between Foundation and grantee goals, even in the early days of our strategy, the Knowledge grants have generally been larger and longer, and they have had a higher proportion of GOS. In the Nonprofit Marketplace Initiative, where we were sought to develop a strategy in a field that did not exist, with grantees who did not share our goals, our grants were generally smaller, shorter, and more project oriented. As noted above, 2013 is an exception, because in that year we began making multiyear, GOS tie off grants to Marketplace grantees.

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From 2006
–2012, our
Knowledge
grants were
larger:

Figure 6. Philanthropy Program Average Grant Size by Strategy (in dollars)



From 2004
–2011,
Knowledge
strategy
grants were
longer:

Figure 7. Philanthropy Program Average Grant Term by Strategy (in years)

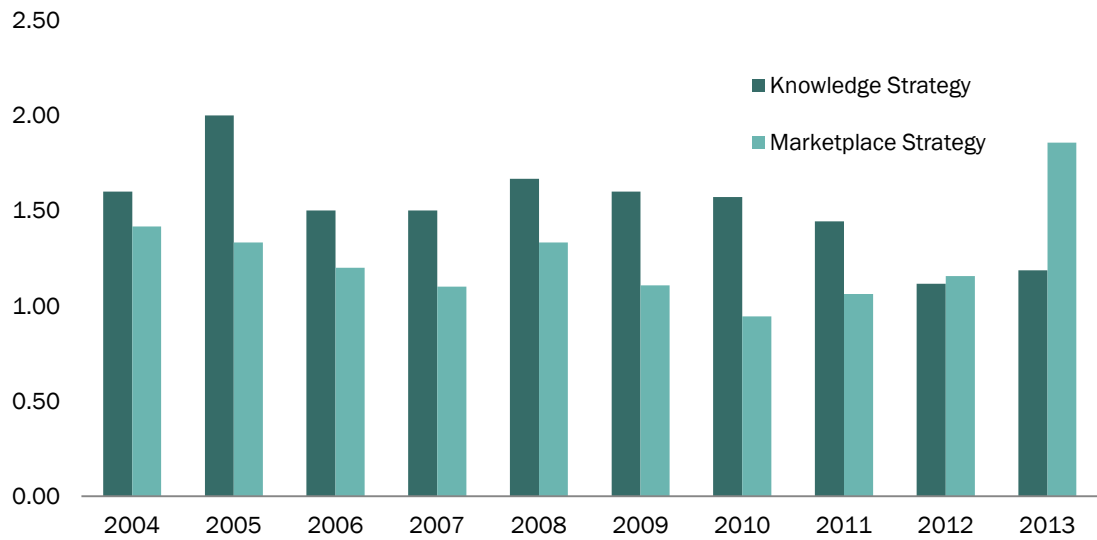
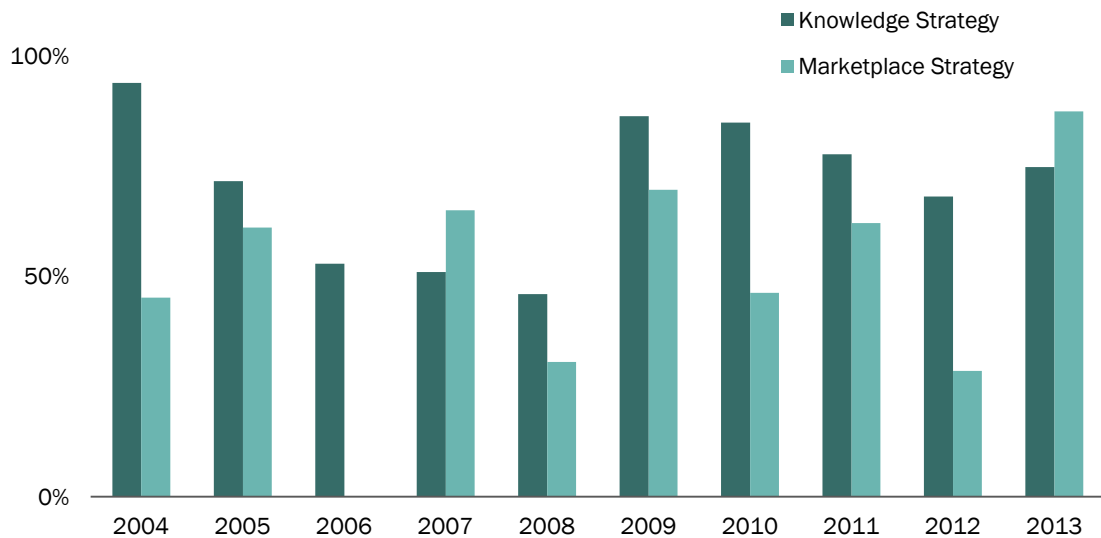


Figure 8. Philanthropy Grantmaking Percentage of Grants Given as GOS by Strategy

The proportion of GOS grants has been higher in the Knowledge strategy every year except 2007 (and 2013 for the outlier reasons discussed):



IV. Fund for Shared Insight

Our contribution to the Fund for Shared Insight will be executed in one large grant each year for the next three years- \$2 million per year to a pooled fund with multiple other funders. We cannot make it a three-year, \$6 million grant because of this single grant's size relative to our total grant budget. In terms of grant structure, however, this single grant will be GOS. Overall, we believe that the opportunities we will have by collaborating with other funders and our intent to fund together for at least three years make the use of a one-year GOS grant the proper choice in this case.

V. Organizational Effectiveness Grantmaking: Challenging our assumptions about what type of grantmaking is “best”

Our Organizational Effectiveness Program shows how, sometimes, small, short-term project grants can be as helpful to grantees as long-term GOS. Since 2004, organizational effectiveness (OE) grants have been made to grantees across the foundation. OE funds are specifically targeted at problems like strategic planning, communications planning, and leadership and board development. Over the past decade, the OE grants have averaged \$45,000 in size and less than one year in duration. In the Grantee Perception Report surveys (GPR), recipients of OE grants consistently rate the Foundation's impact on their organizations and fields higher than grantees who do not receive OE grants. Most notably, as shown in Figures 8-11, grantees who received OE grants rate the Foundation higher on: (a) impact on grantees' fields, (b) impact on grantees' organizations, (c) understanding of grantees' goals and strategies, and (d) understanding of grantees' fields. Receipt of an OE grant is not the only predictor of these higher ratings. In fact, receipt of “consistent” funding is a stronger predictor, but OE is still a significant and independent predictor of higher ratings, especially with regard to impact on the organization.

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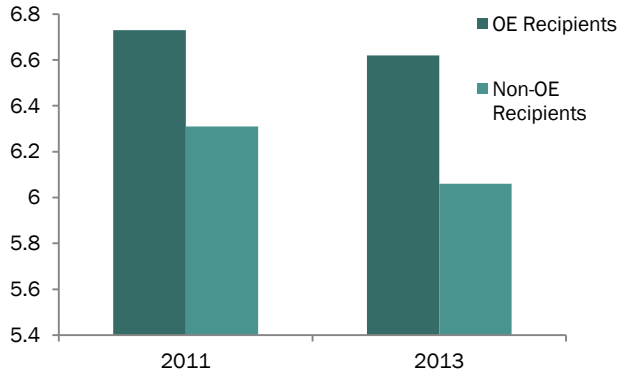


Figure 9. GPR Scores for Impact on Fields

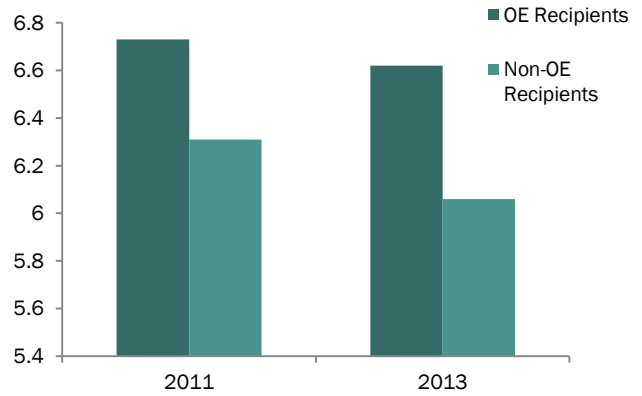


Figure 10. GPR Scores for Impact on Organizations

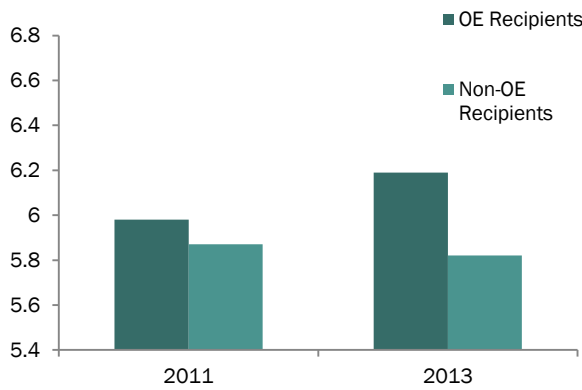


Figure 11. GPR Scores for Understanding of Grantees' Goals and Strategies

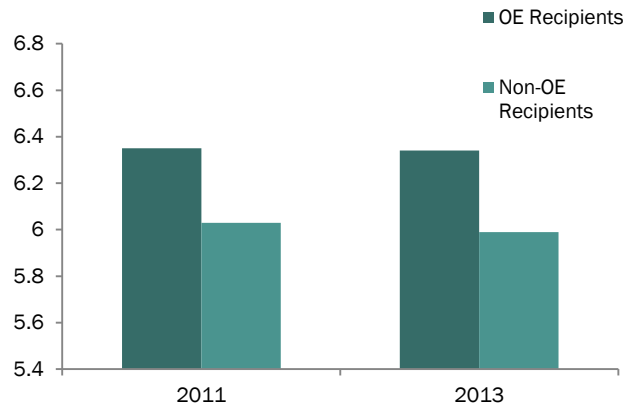


Figure 12. GPR Scores for Impact on Grantees' Fields

This year, we are conducting the first independent evaluation of the Foundation's OE program. Through this evaluation, we hope to better understand the role that OE grant support plays in the constellation of supports provided by the Foundation.