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.

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.

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.

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.

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.