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**Filling the Performance Gap
High-Engagement Philanthropy What Grantees Say
About Power, Performance, and Money**

By Christine W. Letts & William P. Ryan

Stanford Social Innovation Review
Spring 2003

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FILLING THE PERFORMANCE GAP

HIGH-

by Christine W. Letts and William P. Ryan

Engagement Philanthropy

What Grantees Say About Power, Performance, and Money

The Job Training Center, a 15-year-old nonprofit that offers vocational training to people with psychiatric disabilities, was struggling to expand several small businesses that it ran.¹ The businesses provided jobs and job training to clients through catering, janitorial services, and a café. The center's executive director knew when they accepted a grant from a local foundation known for its hands-on philanthropy that they would get more than just the check, but even she was surprised by the intensive relationship that came with the money. "It was a kick in the butt," she said. "We ended up restructuring the organization because the managers in place weren't cutting it. We fired four people in one year or a year and a half. It was a good thing, and it needed to happen. It kind of forced us into action." Looking back, she credits the funding relationship with helping the organization to "ramp up" and gain "organizational stability."

STORIES LIKE THIS – FROM OUR STUDY OF SIX FUNDERS AND THEIR GRANTEES – HELP US ANSWER THREE QUESTIONS about an increasingly popular and controversial funding approach we call high engagement (also known as "venture philanthropy"): What do grantees gain from it? How does it work? And should we encourage it?

High-engagement funding is first and foremost a performance-centered strategy where alignment, reliable money and strategic coaching are used together to convert a grant-making relationship into an accountability relationship that uses power to improve performance. High-engagement funders believe that improving the performance of nonprofit organizations is the best means of achiev-

PHOTOGRAPH BY MASTERFILE



The popular image of high engagement – as a hybrid of grant making and technical assistance – *is wrong*

ing their social goals. Though their means may involve improving management (and this is why sometimes they end up looking like management enthusiasts), the ultimate goals of the six funders we studied – reducing poverty, helping clients prepare for and find good jobs, or promoting the economic development of distressed neighborhoods – were focused on their grantees' impact on society.

The majority of the grantees in our study found their high-engagement relationship both effective and satisfying. They described not only improved organizational capacity – better evaluation systems, marketing, business and strategic planning, and fundraising – but also success in converting that capacity into improved organizational performance. “We would have grown at \$250,000 a year instead of \$1.5 million,” said the

What’s in a Name?

Why use the term “high-engagement funding” to describe something that many people call “venture philanthropy?” In short, venture philanthropy has come to mean so much to so many it now means very little. People use it to describe funding of new ideas or start-up nonprofits. Sometimes it’s used by funders to signal they’re results oriented, businesslike, entrepreneurial, or all of these. Many assume that any funding practice by any venture capitalist or high-tech philanthropist is a coherent venture-philanthropy approach. And as happens with many fashions, the term is outright offensive to many nonprofit practitioners, who find it freighted with the ideology of business.

High-engagement funding says more and less. Unlike venture philanthropy, the term itself describes the central organizing principle of this grant-making approach, but it avoids the baggage (or aura, depending on your perspective) of venture philanthropy. Not least, four of the six funders we studied do not use that term to describe their work, which precedes by years the recent buzz about venture philanthropy.

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executive director of a 20-year-old job-training nonprofit, in describing how the high-engagement relationship helped them achieve their ambitions.

These grantee accounts also suggest that the popular image of high engagement – as a hybrid of grant making and technical assistance – is wrong. Although they assert that high engagement often leads to improved management and organizational capacity, grantees find the formal, capacity-building programs of their high-engagement funders to be of modest value. The real value lies elsewhere. Based on their accounts, we propose framing high engagement not only as a form of capacity building, but also as an *accountability relationship* – in which funders use their power to help grantees improve their performance, and then hold them accountable for it.

These findings point to a dilemma for the field: If the price of improving nonprofit performance is greater use of funder power, is the high-engagement package worth it? Using the experience and insights offered by grantees, we propose a new direction – mutual accountability – for managing this dilemma.

Three Essential Elements of High Engagement

The high-engagement funders we studied consistently combined three elements in their work – a range of informal and formal assistance that we call “strategy coaching,” the use of reliable money, and attention to alignment of funder and grantee interests. Standing alone, each of these is a common feature of grant making. Together, they constitute a distinctive grant-making approach.

1. Alignment of Interests.

In conventional grant making, alignment of grantor and grantee interests is critical – and easy to accomplish. The two determine whether their interests are similar enough to justify a grant. In high-engagement funding, the real work of alignment begins *after* the grant is awarded, and the stakes are higher. Funder and grantee have to be sure their goals and interests are aligned closely enough to justify a long-term, highly interactive relationship, and then they have to maintain that alignment. If goals or interests come into conflict, the entire relationship can become aggravating and unproductive.

Grantees described several practices that helped them and their funders discover and maintain alignment. For example, four of the six funders in our study did not accept unsolicited proposals. These funders were trying to maximize the chances of a good match by opting out of the typical grant-seeking process, where applicants have huge incentives to downplay differences in goals and interests. Once grants were made, ongoing communication between the grantee and funders helped to main-

THE HIGH-ENGAGEMENT FUNDING RELATIONSHIP



*Alignment of funder and grantee interests is the foundation of effective high engagement. With that in place, high-engagement funders contribute **reliable money** – sizable grants over long, often indefinite terms – to support the organization’s work and, in the process, earn the trust of the grantees. Finally, through **strategy coaching**, the funder helps grantees improve their performance – by jointly setting goals, evaluating performance, and providing pressure and support to help the grantee achieve goals. When high-engagement funders use these three elements in combination, they convert a grant-making relationship into an accountability relationship that uses power to improve performance.*

“free us up to do our work,” said one executive director of a nonprofit that was able to add staff, expand programs, and initiate planning with the knowledge that the support would not be withdrawn abruptly.

Reliable grants are also valued for their responsiveness – funding what the organization says needs funding. Unlike some funders “who will fund you for a couple of years, and then want something new,” said one grantee, high-engagement funders tended to listen to and respond to the needs and priorities of the grantee organization. This grantee has been able to develop and refine the education programs his organization offers, instead of contriving new programs to appeal to funders’ shifting interests. Long-term, flexible grants encourage a more trusting relationship. “They get a better picture over time and see your ups and downs,” said one grantee. “It helps you develop ... a more open relationship.” The trust emerges with time, says the executive director of a 10-year-old community-based nonprofit that combats AIDS locally. “You establish over the years a confidence. You can say, ‘I have a problem.’ When we discuss [it], they help us come up with solutions.” His organization has grown from an all-volunteer association to a multi-service public-health agency during the partnership with his funder. The relationship “promotes honesty,” according to grantees, and honesty is essential to the collaborative

tain the alignment. When nonprofits and funders discovered that their program goals were diverging, they could stop, reflect, and decide whether and on what terms to move forward. Those who failed to pause and adjust course inevitably stumbled into one of the deepest pitfalls of high engagement, which we will elaborate upon later.

2. Reliable Grant Money.

Why do grantees consent to and stay, often for years on end, in relationships where this funder power will be used as actively as it is in high engagement? The answer, of course, is money. As grantees explained it, the money that high engagement gives is valued as money – pure and simple. But even when high-engagement grants are smaller than others the grantees receive, they are more valuable to the organization because of their *reliability*. The high-engagement funders we studied funded their grantees for an average of seven years, and many anticipated continuing their funding indefinitely. This long-term, flexible, reliable money is essential to high engagement.

Most nonprofits operate in a hugely uncertain funding environment. Changes in the economy, the interests of foundations, and the priorities of governments can quickly reduce or redirect money. This makes planning difficult and requires extensive fundraising just to keep pace. The stress and effort inflicted by this uncertain funding environment also breeds a scarcity mentality that can shrink an organization’s ambitions. So, even when high-engagement grants are smaller than other grants, they are more valuable to the nonprofit because they come in year after year and enable long-term planning. They

THE STUDY

Interviews and group discussions with 43 out of 116 grantees of six high-engagement funders, and surveys from 71 of them.

Examined six high-engagement funders:

- Two Independent Foundations
- Two Community Foundations
- Two Corporations

Characteristics of the grantor-grantee relationships:

- Most relationships longer than seven years
- Grants ranged from \$30,000 to \$600,000
- Grants as share of grantee’s budget ranged from 2.5 to 55 percent
- Grantee budgets ranged from \$150,000 to \$26 million

problem solving they undertake with their funders.

3. Strategy Coaching.

Unlike conventional grant making – which sometimes offers grantees support for strategic planning – high-engagement funders are directly involved in creating strategy with their grantees. And their approach is different as well, less formal and more focused on converting strategy into performance.

Developing Strategy In developing strategy, high-engagement funders prefer ongoing strategic *thinking* with their grantees to the traditional and more formal strategic *planning* processes. So instead of developing comprehensive long-range plans at long intervals, the funders and grantees favored informal, ongoing communications – phone calls, e-mail, and short meetings – to troubleshoot challenges as they arose. These interactions, in the words of one grantee, “force us to think about what our goals are.” In fact, grantees gave their funders top marks when they acted as a “sounding board.” They considered one foundation’s staff to be “astute – political in a good sense” for helping them adapt to shifting public policy. Grantees of another funder praised the senior program officer they dealt with as “a very smart strategist” whose “real strength is his judgment and intuition.”

In addition to ongoing, informal interaction, several funders and their grantees also used formal business planning processes or the annual grant-renewal process to help grantees think strategically. But unlike the routine planning associated with most grant renewal, most of the high-engagement funders used those occasions to address the needs and priorities of the grantee’s entire organization, not just a single program.

Implementation: Pressure and Support For the high-engagement funders we studied, strategies alone are not a goal; the goal is the *implementation* of strategies aimed at producing social impact. The funders assist in implementation by supporting the organization when the work goes well, and by demanding improvements when it goes poorly. The funders do for grantees what sports coaches do for teams: hold them accountable for their

grantee told us.

Why do grantees tolerate such pressure? Because it’s backed by support, and it’s often productive. The program officer who asked hard questions was also praised for listening and following up with solutions. “You will not walk out of a meeting with her saying, ‘I have not been heard,’” said the executive director of an after-school program. Beyond listening, the foundation matches pressure with tangible support. “You pick up the phone [and call the foundation],” said the grantee, somewhat hyperbolically, “and five minutes later you have ten thousand dollars of new equipment and an expert on your doorstep.” Much of the formal, technical assistance of high engagement arises in this context. Expertise – in the form of consulting or training – is offered to help grantees cope with the particular challenges they face in implementing their strategy. The most valued funders, while willing to challenge grantees, are highly responsive; they give grantees what they need, when they need it – and no more – and are prepared to pay for it.

What keeps pressure and support in balance? Beyond the funder’s personal judgment on when to back off, the nature of the high-engagement deal encourages some balancing of pressure and support. These funders have explicitly committed to their role of supporting the grantee and see that as central to their own purpose and strategy. And because the grantee and funder’s work and success are so closely bound together, undue pressure on the grantee also means more pressure and responsibility on the funder. As one grantee observed, her funder won’t impose goals that her nonprofit lacks the resources to meet because, in the end, the funder will have to pay for it. This “prevents them from putting themselves out too far.”

Evaluating Performance Evaluation of performance is a critical part of the funder’s role in ensuring that strategy is converted into action. Most grantees accepted the funder’s role in assessing performance. “There is value in saying, ‘We’re going to evaluate,’” said one grantee. “It raises our level of concentration.” Assessment techniques ranged from formal, classic program evaluation to judgments that were based on personal observation

The funders do for grantees what sports coaches do for teams:

performance. “It’s required us to step up,” is how the executive director of a human-service organization summed it up.

The pressure can be stressful. Grantees cited dozens of examples, funders “asking hard questions,” “pushing the envelope,” and demanding “numbers to back up” their assertions. It was “harrowing but helpful” working with their funder, one

and the best available – but often imperfect – information. For example, one funder noted that a grantee’s board seemed weak, and raised the issue by simply asking “What’s up?” A conversation about board structure and performance followed. “It can be wonderful to sit down and discuss these things,” said the grantee. Like many funders, the high-engagement funders relied upon for-

mal outcome evaluations to understand which programs were effective for the grantees' clients, important knowledge for future program and funding decisions. But their less formal evaluation of grantee progress has a different goal: to provide feedback that grantees can use in the short term in improving organizational performance.

Feedback and Honesty Paradoxically, while funders were using more power than usual, grantees also felt more empowered. "The power relationship is very different with [our high-engagement funder]," said the director of a nonprofit serving the homeless. "It's much more equal than other relationships – where 80 or 90 percent of the power is with the program officer. Here, it's more like 60-40." The close and long-term relationship between grantee and funder stimulates trust and candor. Putting up with an annoying program officer in an arm's-length relationship may be a wise calculation, but having to work closely with one over years of high engagement may make polite deference too costly.

The high-engagement grantees were under no illusion that they could always push back or give negative feedback to their funders, but grantees did sometimes challenge them. The director of a large community development nonprofit, for instance, was frustrated over the behavior of an executive assigned by a corporate funder to manage the relationship. He went directly to the company CEO and insisted on getting a new liaison. (The company obliged.) Other grantees also reported that feedback "worked." Most of the high-engagement funders were transparent and adaptive. Grantees

hold them accountable for their performance

could see inside the foundation, and realize that the staff was often willing to change in response to feedback. In short, it was worth questioning or challenging the funder. "There's a lot of conflict with the funder, but it's a positive give and take," said the executive director of a youth-development nonprofit. "It isn't easy, but we do it." In part, grantees can assert themselves because they

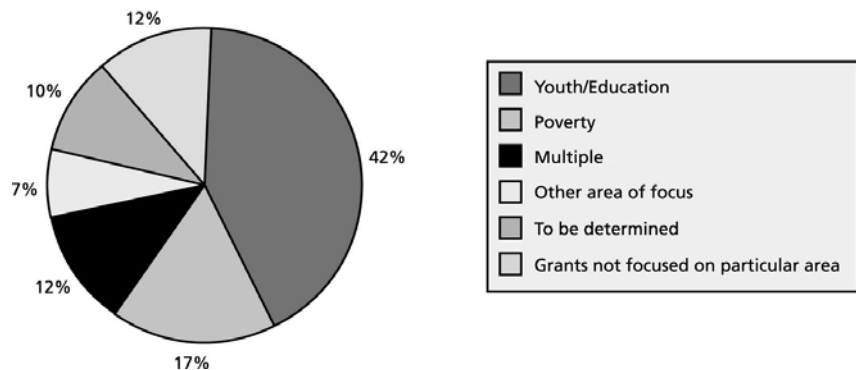
BACKGROUND: LANDSCAPE OF VENTURE PHILANTHROPY

SOURCE: Venture Philanthropy Partners, Venture Philanthropy 2002 report



Capital:
42 Funds total \$400M
Average Staff: 3.4
Age: 2/3 incorporated
after Jan 1, 1999

Subject Focus of Grants



know that their funders can't succeed unless *they* succeed, and that gives them some sense of their power. "I know they need us," one grantee said.

Pitfalls of Engaged Philanthropy

Misalignment of Interests Misalignment can emerge because of unclear program goals. Take the case of a large community foundation that enlisted a community-based youth service organization to carry out a multiyear initiative to improve several distressed neighborhoods. As the funder and youth organization clarified their programmatic interests over time, they discovered they weren't passionate about the same goals. And because neither was willing to yield to the other's vision, their relationship was reduced to a financial transaction. "After a certain point, I

wasn't worried about their concept," said the grantee. "I was doing what I needed to do to get the money. It became a matter of 'Let's just get the damn money and forget about it.'" In retrospect, "This was not a case of them coming to us with their agenda," his grant officer admitted. "We forced them to march to the beat of our drum."

Even if goals and interests are clear up front, they can shift over time and become misaligned. A manager of a nonprofit that was training small businesses to employ disadvantaged workers said that in the beginning their funder helped them with their "day-to-day challenges." Over time, however, their funder became pre-occupied with "field-building pursuits" – promoting the wider use of social-purpose businesses as an anti-poverty strategy. The funder's effort to develop metrics to track grantee performance for his field building was especially burdensome. The metrics systems "is a wonderful idea," the grantee said, "but has absolutely no relevance for my business. It's a pure research project for the field. It's a productivity drag." The funder's new interest has "grown into their agenda. And now we have to get around their agenda, the way we do with other funders."

Lastly, and perhaps most importantly, grantee satisfaction declined when funders put their own institutional interests first

by standardizing their grant-making procedures or their strategy coaching. This standardization problem was remarkably common. For example, one funder made the development of business plans the centerpiece of the first year of engagement. Group training by a consultant on the business plans saved the foundation money, but grantees felt the sessions were either too advanced or too basic. (In contrast, individual consultations with the same consultant were highly praised.) To meet its own institutional goal of greater efficiency, the funder was, in effect, shifting the cost to grantees, who had to do extra work to find value in one-size-fits-all approaches.

Another foundation required all its grantees to work with an evaluation firm that the funder had selected and paid for. This saved time and money, and gave the foundation quality control, but grantees complained that this approach led to long delays, "cookie-cutter" methodologies, and superficial metrics. They also objected to their lack of choice. Unlike other assistance from the foundation, "This was not *offered*. We have no control," complained one grantee.

Unequal Pressure and Support Even where grantees were generally pleased with the process and results, high-engagement relationships could be difficult, stressful, or contentious – usually

because funders were not matching pressure with support. Some relationships reached low points where, as one described, "We lied to them (the funder); we told them what they wanted to hear." One funder pressed for ambitious growth goals so high that grantees said reaching them inflicted "trauma." Another funder brought in outside experts for what inadvertently turned into a semi-public, semi-bruising critique of its grantees' business plans. And when a new program officer at another foundation bluntly challenged long-term grantees with a critique that began "I'm going to talk about what's in my heart, and you're not going to like it," the grantees, not surprisingly, were "very angry."

While conceding that the pressure helped, one group of grantees that experienced an extraordinary amount of it from their funder at the outset of their relationship said it also drove them to resent the funder for a time, and to feed assurances to their program offi-

VARIATIONS OF HIGH ENGAGEMENT

Level of Foundation Dedication to High Engagement

		TOTAL	PARTIAL
		ENTERPRISE	<ul style="list-style-type: none"> Entire foundation dedicated to high engagement, invests in entire nonprofit Highest opportunity for alignment Least opportunity for organizational objectives to cause misalignment
Level of Investment in Nonprofit	PROGRAM	<ul style="list-style-type: none"> Entire foundation invests in part of nonprofit Burden on nonprofit CEO to balance time and strategy Chance of "tail wags dog" 	<ul style="list-style-type: none"> Part of foundation invests in part of nonprofit Greatest potential for organizational objectives to create misalignment

The dynamics of high engagement also depend upon whether funders invest in the entire nonprofit enterprise or just one program, and whether the funder organization operates either partially or wholly with the high-engagement approach. Funders and nonprofits should consider the pros and cons of each configuration.

High-engagement funders have the power and tools *but they lack legitimacy*

cer simply to ease the pressure. In another case, working with one program officer was said to be like “being in front of a locomotive” that bore down on them relentlessly. The program officer was sharply critical of the grantees’ performance, but instead of helping them identify problems and brainstorm solutions, she “came up with her own solutions and pushed them at you.”

For most grantees, though, the mix of pressure and support balanced out over time to create a productive and manageable relationship. The program officer who helped arrange the public critique of the business plans was credited with extraordinary responsiveness. She urged her grantees to consider her foundation staff as their staff. Said one of these grantees: “They want me to succeed. They make this clear indirectly and explicitly. It is repeated, and it’s not insincere or sappy.”

Exit Strategies Still a Question Although the high-engagement funders seem to have mastered long-term, reliable funding, the challenge of developing an effective exit strategy seems to elude them. Though the average funding relationship lasted over seven years, we did not find a compelling exit strategy in any of the high-engagement relationships. (In a few cases, the funders and grantees parted ways because the funders concluded that grantee performance was hopelessly lacking, or that their interests had diverged.) While most of the funders promised transition periods to prevent total disruption should they withdraw funding, there is often no effective “take-out” strategy.

The Unfinished Business of High Engagement

Whatever value it has for grantees, high engagement poses a dilemma for the field. High-engagement funders have the power and tools to improve grantees’ performance and hold them accountable, but they lack legitimacy. Holding a nonprofit accountable is ultimately the work of its board, yet they often lack the tools and resources for that job; many nonprofit boards are disengaged and ineffective. This raises the troubling prospect that high-engagement funders are filling a power vacuum. And resolving this problem is the unfinished business of high engagement.

The easiest response to this problem is for the field to back away from high engagement, but we think a better response might be more engagement. Specifically, we propose a new approach, where the high-engagement funder would engage not just the nonprofit executive director, but the executive *and* the board. This might involve the funder meeting with the board at key moments – around the initial funding proposal, when the terms of engagement are established, or when grants come up for renewal. Executive committee or board leadership could interact more frequently to discuss the grant relationship itself, as well as work on

Caution: Funder on Board

While we see the funder meeting with the board for key discussions, we do not equate this mutual accountability approach with the practice of a funder joining a grantee board and gaining formal board member power. While it may have its own merits, blending the interests and agendas of the funder and trustee confuses their unique responsibilities. A funder may end up preferring to protect his investment rather than taking on a comprehensive, trusteeship view. And other board members may defer to the judgment of the funder, actually reducing the kind of vigorous exchange that should be a part of governance. A funder-board engagement that keeps the two distinct can reinforce both parties’ roles.

making headway on substantive performance issues.

This arrangement deals with funder power by acknowledging high engagement for what it is. Indeed, the risks of high engagement may be greatest when it is camouflaged as routine grant making. By raising it to the board level, funders and grantees alike would see that high-engagement philanthropy is not just about grants and technical assistance, but about strategy development, performance improvement, and accountability.

More importantly, funder engagement with the grantee would provide a regular venue for grantees to question funder intentions and priorities. This would be a normal and expected part of the relationship. Such a dialogue would convert the current high-engagement approach, where funders hold grantees accountable, into a mutual accountability approach, where the board and the funder hold each other accountable for their role in the nonprofit’s work.

But beyond providing a check on funder power, mutual accountability might actually help improve the performance of grantee boards. Dialogue with another stakeholder – one who knows the organization well, is deeply committed to it, and is inclined to actively challenge its assumptions or performance – might well inspire more diligence by board members.

Whether this mutual accountability approach appeals to high-engagement funders and grantees or not, the challenge remains the same: If high engagement is to mature and endure, it has to be both effective and legitimate. □

For extended analysis of this topic, please visit www.ssireview.com.

¹ Not the actual name of the organization.