A Decade of Outcome-Oriented Philanthropy
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Outcome-oriented philanthropy is at least a century old, but the past 10 or so years have seen an upsurge in both its intensity and its extent. It has been the subject of many articles, talks, and conferences, and has given rise to new organizations dedicated to facilitating its practice. An increasing, albeit still small, number of foundations seem to have adopted an outcome orientation.

“Outcome-oriented” is synonymous with “result-oriented,” “strategic,” and “effective.” It refers to philanthropy where donors seek to achieve clearly defined goals; where they and their grantees pursue evidence-based strategies for achieving those goals; and where both parties monitor progress toward outcomes and assess their success in achieving them in order to make appropriate course corrections.

This approach can take different forms. A classic example from many decades ago was the Rockefeller and Ford Foundations’ funding of research and development to improve agricultural production in developing countries—what became known as the Green Revolution. More recent examples include the John D. and Catherine T. MacArthur Foundation’s efforts to build the field of digital media and learning, and Acumen Fund’s and Omidyar Network’s “impact investments” to benefit the world’s poorest people.

The common theme of these approaches, the idea that philanthropy should seek results, may seem so obvious as to make the modifier “outcome-oriented” superfluous. But despite the increasing belief that the work of the sector should rest on goal-oriented, evidence-based strategies, very few donors actually follow these principles.

I caught the start of the wave of outcome-oriented philanthropy when I joined the William and Flora Hewlett Foundation as president in 2000, and it’s been a great ride. As I prepare to leave the foundation, I’d like to reflect on the currents that have brought outcome-oriented philanthropy this far, and the shoals and reefs that lie ahead.

Stirrings of a Movement

Before focusing on the particular practices of outcome-oriented philanthropy, I’ll begin with a word about its infrastructure. The last decade opened with two important articles that provided the underpinnings of outcome-oriented philanthropy: Christine Letts, William Ryan, and Allen Grossman’s *Virtuous Capital: What Foundations Can Learn from Venture Capitalists*, and Michael Porter and Mark Kramer’s *Philanthropy’s New Agenda: Creating Value*. These were followed by an unprecedented amount of research, teaching, and writing on the subject, as well as the launch of the *Stanford Social Innovation Review* and *The Foundation Review*, blogs such as Sean Stannard-Stockton’s *Tactical Philanthropy*, and new academic research centers at Stanford, Duke, and the University of Pennsylvania.

What practical assistance is available to outcome-oriented
philanthropists? Although older membership organizations such as the Council on Foundations, Philanthropy Roundtable, the National Center for Family Philanthropy, Independent Sector, and the regional associations of grantmakers have increased their programming in this respect, strategy is not (yet) embedded in their DNA. But two important new organizations have entered the field. The mission of the Center for Effective Philanthropy is to improve foundations’ abilities to achieve social impact. As its name implies, Grantmakers for Effective Organizations’ guiding tenet is that strong nonprofit organizations are necessary for achieving outcomes.

The number and quality of consulting firms providing donors with management and strategic advice have increased dramatically during the past decade. Among the new entrants are the Bridgespan Group and FSG, which provide strategic consulting to organizations. Firms like Rockefeller Philanthropy Advisors and Arabella Philanthropic Investment Advisors provide services to individual donors as well.

Like strategic consultants, good evaluation shops have been around for some time. But new organizations have emerged to meet new demands. Among the signal developments of the past decade was the creation of the Abdul Latif Jameel Poverty Action Lab at the Massachusetts Institute of Technology, which has brought the highest standards of social science to assess interventions in developing countries.

Beginning with Philanthropy Workshop and its offshoot, the Philanthropy Workshop West, the decade saw an increase in the number and quality of outcome-oriented donor education programs available to high net worth philanthropists. The Donor Effectiveness Network is establishing common outcome-oriented standards among a broader group of donor education providers.

The Internet has enabled advances in communication among funders, grantees, and others. The Foundation Center’s Glasspockets initiative is inducing greater foundation transparency. And many foundations receive feedback from grantees through the Center for Effective Philanthropy’s Grantee Perception Reports.

A growing number of independent groups use the Internet to publish information about the impact of nonprofits. GiveWell and Root Cause
provide in-depth analyses of nonprofits. Philanthropedia (recently acquired by GuideStar) aggregates experts’ opinions of organizations as a proxy for their effectiveness and outcomes. Charity Navigator, once exclusively focused on financial data unrelated to outcomes, is beginning to develop outcome indicators. And the Charting Impact project of Independent Sector, GuideStar, and the Better Business Bureau Wise Giving Alliance is encouraging nonprofits to publish structured information about their goals, strategies, and achievements.

Finally, more than a dozen recent books, by authors including Laura Arrillaga-Andreessen, Joel Fleishman, and Tom Tierney advocate an outcome-oriented approach. No less important, the movement has inspired some strong critics, including William Schambra and Bruce Sievers, who argue against the practice, or at least its inclination toward measurable outcomes.

Approaches to Outcome-Oriented Philanthropy

For all the new organizations, services, and advocates of outcome-oriented philanthropy, the important question is the extent to which it has taken root in practice. Outcome-oriented philanthropy has two major focal points: supporting organizations and problem-solving philanthropy. Examples of supporting organizations range from grants to after-school programs for underserved children and gifts to universities to create, teach, and disseminate knowledge, to investments in for-profit entities distributing malaria bed nets. There are three different strategies for supporting organizations: philanthropic buying, providing risk and growth capital, and impact investing.

Outcome-oriented philanthropic buyers look for the best service in their areas of interest for the lowest cost, and make gifts and grants to help pay the operating costs of nonprofits providing those services. Philanthropic investors provide risk capital to social entrepreneurs and nascent organizations, or growth capital to enable relatively mature organizations to expand the scope, efficiency, and quality of their work. Impact investors seek the double or triple bottom line objectives of achieving social or environmental impact as well as financial returns. Their investments may buy services or provide risk or growth capital with the aims of, say, improving the lives of the poor through microfinance or reducing energy consumption by investing in clean tech startups, while earning financial returns.

The second major type of outcome-oriented philanthropy is problem-solving philanthropy. Whereas philanthropists often buy services and support organizations in order to solve problems, problem-solving philanthropists put the problem rather than the organization at the center, and actively engage with their grantees in designing and implementing strategies. Here philanthropists act as architects, general contractors, or engineers, and their work often verges on the operational. As a practical matter, only a foundation staffed with experts in a field can undertake this work. During the past decade, foundations played increasingly active and visible problem-solving roles by building fields, brokering collaborative arrangements, and supporting systems change and advocacy.

Supporting Organizations

Philanthropic Buying | Of the three strategies for supporting organizations, philanthropic buying accounts for the vast majority of contributions, and it is also the area where outcome-oriented philanthropy has shown the least gains. A recent survey indicates that although 21 percent of donors inquire into performance, only 3 percent actually use the information to determine which organizations to support.2 This may be partly explained by the challenges of obtaining adequate information about nonprofits’ performance. Despite the third-party ratings groups mentioned above, there is nothing approaching the comprehensiveness of, say, Consumer Reports. As a result, philanthropic buyers must often do their own due diligence, which requires knowledge of the substantive area and detailed information about a particular organization’s goals, strategies, and actual outcomes. Staffed foundations are relatively well equipped to acquire this information. Other foundations and high net worth individuals must rely on consulting firms or else follow the lead of staffed foundations in which they have confidence—a practice that has not yet gained much adherence.

Apart from these difficulties, many philanthropic buyers subvert their contributions by earmarking donations for particular projects rather than providing unrestricted general operating support. Even outcome-oriented buyers impose these restrictions, often in the misguided beliefs that general operating support grants cannot be evaluated and that donors can have more impact by designating funds for programs. A decade-plus of advocacy by Independent Sector, Grantmakers for Effective Organizations, and the National Committee for Responsive Philanthropy seems to have made minimal gains.

Providing Risk and Growth Capital | Well before the current decade, philanthropists supported social entrepreneurs’ early-stage ventures through organizations such as Ashoka and Echoing Green. Although the interest in social entrepreneurship has grown, the sector is still lacking in patient capital to build, sustain, and grow promising nonprofit organizations—for example, funding to pay for new computer systems or train staff members.

One particular area of need is funding to allow successful enterprises to operate at a larger scale. The Edna McConnell Clark Foundation (EMCF) does this by helping build the capacity of promising youth services organizations, and by aggregating capital toward this end. In 2007, EMCF launched the Growth Capital Aggregation Pilot that has raised $120 million for Citizen Schools, Nurse-Family Partnership, and Youth Villages.

Philanthropic investors must perform the same tasks as philanthropic buyers—and then some. They must assess organizations’ capabilities, needs, and potential for growth and sustainability; understand how to replicate successful model programs; and provide capacity-building support, directly or through consultants, in areas including strategic planning, management, evaluation, governance, fundraising, and communications. As with philanthropic buying, these activities call for experienced foundation staff members. Individual donors and unstaffed foundations have the option of investing in a fund managed by an organization like EMCF.

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The idea that markets can be important vehicles for creating social impact was recognized by the Internal Revenue Service as early as 1969 in its favorable treatment of program-related investments—typically investments that have a lower market-adjusted return than ordinary investments. This paved the way for impact investing some 30 years later.

Impact investors invest capital or make loans to business or nonprofit entities with the goal of achieving social, environmental, and financial returns. In addition to affirmative investment strategies, an increasing number of foundations engage in “socially responsible investing” by voting proxies on issues of social concern or using negative screens to avoid investing in companies that they believe cause social harm.

The tax code creates a divide between investments that seek financial and social returns. By doing much of its work outside of a §501(c)(3) charter, the Omidyar Network makes both for-profit and nonprofit investments to achieve social impact. And two new legal forms of organizations have emerged to blend financial and social outcomes: the low-profit limited liability company (L3C), and the benefit, or B corporation, whose charter requires the company to adhere to socially beneficial practices. (It remains to be seen whether these boundary-crossing approaches increase social benefits or subordinate social benefits to profit motives.)

In addition to needing the skills of philanthropic buyers and investors, impact investors need the financial acumen to identify and analyze investment opportunities that promote the foundation’s goals at whatever financial return and risk level fit their social and financial parameters. This requires marrying the knowledge of a foundation’s program officers with the skills of its investment staff. Program-related investments typically require legal expertise as well. Donors who lack the staff to perform these activities in-house can turn to the increasing number of consultants in this area, such as Imprint Capital Advisors, Arabella Philanthropic Investment Advisors, and Rockefeller Philanthropy Advisors.

As with all philanthropic giving, the main challenge of impact investing is to assess the social impact of one’s investment decisions. The issue is most apparent for impact investing that seeks to achieve market rate returns at market risk levels: If clean tech is just as attractive to investors just out to make a buck, will a mission-related investment in clean tech make even a slight additional difference in improving the environment? (Similar questions can be asked about negative screens for investing in publicly traded stocks.) As tools are developed to measure the “blended value” of impact investing, they may ultimately benefit all outcome-oriented philanthropy.

**Problem-Solving Philanthropy**

Problem-solving philanthropy focuses on solving social, environmental, or other problems rather than supporting individual nonprofits as such. This approach is essential when a field lacks strong organizations whose missions and activities are closely aligned with a funder’s goals—which may happen if the funder’s goals are novel or not mainstream, or if the field is new or is not well developed. But even in a fairly mature field, organizations are often disconnected and competitive with one another at the expense of transparency and collaboration, and lack the capacity or will to act in coordination to solve multifaceted problems. In short, the whole sometimes is less than the sum of its parts.

In these situations, the problem-solving philanthropist plays a coordinating role, drawing on the resources of various organizations and linking them with each other and with experts, policy makers, and practitioners. Problem-solving philanthropists use all available philanthropic tools, including investing and buying, to achieve particular goals. With expertise in the field, they often possess a perspective that no single organization does. Like philanthropic buyers and investors, problem-solving philanthropists often help grantees improve their organizational effectiveness, but they typically go beyond this role to be partners in strategic planning and implementation.

Here are several vignettes of different types of problem-solving philanthropy from the Hewlett Foundation’s work as well as one in which we were not involved.

**Building Fields**

For decades, international donors’ support for primary and secondary education in developing countries focused on expanding access to schools without attention to learning outcomes. In 2001, the Hewlett Foundation began to try to improve outcomes in reading, math, and problem-solving skills. Because few existing organizations were closely aligned with this goal, the foundation had to draw on diverse entities to put together a strategy. For example, the foundation made grants to the Center for Universal Education for research on quality education in developing countries. It made grants to the Aga Khan Foundation to develop a more effective approach to teaching reading and math, and then to implement the approach in Kenya and Uganda. And it engaged the African Population and Health Research Center to assess whether these approaches actually worked. Over time, the foundation hopes to foster the development of in-country organizations to which it and others can make general operating support grants. But for now, the work continues to require considerable engagement by foundation staff.

**Brokering**

Hewlett Foundation staff played a major role in assisting with the transfer of the Stanford Social Innovation Review from the Stanford Graduate School of Business (whose priorities no longer included the journal) to Stanford University’s Center on Philanthropy and Civil Society, and gaining financial support for the enterprise. The foundation also facilitated the acquisition of Philanthropedia by GuideStar and the formation of a strategic alliance among Independent Sector, the Wise Giving Alliance, and GuideStar to create Charting Impact, a framework for organizations to describe their goals, strategies, and outcome measures.

**Collaboration and Linking Organizations**

The Hewlett, Moore, Packard, TOSA, and Wilburforce foundations and the Rockefeller Brothers Fund collaborated to protect about 21 million acres of largely undeveloped coastal land in the Great Bear Rainforest in British Columbia, Canada. The foundations’ staffs brought together conservation grantees with the provincial and Canadian governments, First Nations tribes, and the timber industry—interests that had fought one another for years. The foundations saw an opportunity to facilitate negotiations among these parties to protect the forest, deliver economic development opportunities to coastal First Nations, and put the timber industry on a path toward sustainability. In the process, the foundations created the Rainforest Solutions Project to put together an environmental deal among nonprofits.
and supported similar partnerships among the First Nations people and private sector companies.

**Policy Advocacy** | The Hewlett Foundation’s Environment Program has made grants to a variety of organizations to advance climate change and air quality policies in California. Traditional environmental groups like the Natural Resources Defense Council and the Environmental Defense Fund have provided critical advocacy and analytical capacity to help develop California’s climate change policies, which ultimately can have a large effect on private investments as well as public resources. On the local and regional level, public health, environmental justice, and community groups like the Fresno-Madera Medical Society, the Coalition for Clean Air, Communities for a Better Environment, and the East Yard Communities for Environmental Justice have achieved significant improvements in air quality.

**Collective Impact** | Foundations have sometimes played a role in multi-stakeholder collaborative efforts. In the article “Collective Impact,” in the winter 2011 issue of the *Stanford Social Innovation Review*, John Kania and Mark Kramer write that “large-scale social change comes from better cross-sector collaboration rather than from the isolated intervention of individual organizations.” Their poster child is Strive, a project in which foundations, nonprofit organizations, corporations, school district leaders, and universities have collaborated to address the problem of low student achievement in Cincinnati, and created an intermediary organization to coordinate their efforts.

In addition to calling for all the skills involved in supporting organizations, problem-solving philanthropy requires understanding the dynamics of complex social and political systems; developing sound strategies that take both benefits and risks of failure into account; helping develop strategies, and monitoring and evaluation plans; and linking nonprofit organizations, funders, experts, and policymakers. It also calls for the resilience to abide both great uncertainties and great failures.

**Criticisms of Outcome-Oriented Philanthropy**
Outcome-oriented philanthropy—particularly the problem-solving approach—has been subject to various criticisms. Some critics embrace the practice and seek to improve it, and others challenge the very concept. I’ll begin by mentioning an argument between the two main outcome-oriented schools. Some proponents of problem-solving philanthropy imply that (merely) supporting organizations is not an impactful use of philanthropic dollars. Indeed, the frequent characterization of problem-solving philanthropy as “strategic” might be taken to imply that supporting organizations is *un*strategic. On the other side, some commentators accord general operating support an almost religious status, and denigrate problem-solving philanthropy as inherently top-down and inimical to the autonomy and vitality of nonprofits. Stannard-Stockton takes this position in his usually excellent blog, My view is that both approaches have great potential, but that their true value depends on their actual outcomes.

These internecine squabbles aside, internal critics of outcome-oriented philanthropy voice the concerns that it can be incompetently executed, and that funders may exercise inappropriate control over grantees, thereby impinging on their autonomy and stifling innovation. For example, in their 2011 article in *The Foundation Review*, “Beyond the Veneer of Strategic Philanthropy,” Patricia Patrizi and Elizabeth Thompson note that, after engaging in a lengthy strategic planning process, some foundations put their plans in a drawer and do not engage in the ongoing monitoring and evaluation that would inform necessary corrections. They also observe that foundations often don’t consider in advance the tasks that their staffs must perform to design and implement a strategy, and that staff members may lack the requisite skills.

Some of Patrizi and Thompson’s points resonate with the Hewlett Foundation’s experience over the past decade. Early on, we mouthed the concepts of outcome-oriented philanthropy and asked grantees to do likewise, without fully understanding how the concepts played out in practice. Though we always treated strategic plans as living documents, it is only in the last several years that we have engaged in the systematic monitoring and evaluation necessary to see if strategies are working, and correct them when they’re not. We have also learned through painful experiences about the challenges of implementing even well-thought-out strategies. The Hewlett Foundation’s support for strengthening grantees’ capacities has grown year by year. And our understanding of the tasks performed by program officers, the skills needed, and the implications for hiring, support, and training also has grown tremendously.

Patrizi and Thompson note that some foundations treat grantees merely as agents for implementing strategies designed in-house, rather than as partners in their design, leading to weak strategies, limited buy-in by grantees, and poor feedback. In “Letting Go,” an article in the spring 2011 issue of the *Stanford Social Innovation Review*, Kristi Kimball and Malka Kopell levy the similar criticism that foundations are prone to the “not invented here” syndrome in adopting strategies and their underlying theories of change.

The critics’ basic concern is legitimate. Workable theories of change cannot be developed by foundation staff alone, but only through extensive and ongoing consultations with grantees, practitioners, experts, policymakers, and others. But in their zeal to prevent the not-invented-here error, Kimball and Kopell adopt the mirror-image error of demanding that “it must be invented there,” where “there” is a grantee. This fundamentally mistakes the way knowledge develops. It is seldom possible to trace the origins of ideas to one or another institution. As ideas are tested, refined, mixed with others, or discarded, they don’t belong to any particular organization but instead enter the public domain.

Kimball and Kopell also complain that a given foundation typically funds interventions based on only one or two theories of change, rather than supporting a diverse group of promising ideas. But although supporting a number of ideas may sound good in theory, most foundations lack the financial and human resources to pursue more than a couple at any time.

In contrast to the preceding critics who want to improve outcome-oriented philanthropy, others question its core tenets. These include both conservatives like William Schambra and liberals like Bruce Sievers and Bill Somerville, whose positions sometimes converge and sometimes diverge. The critics share a radical skepticism about social science as well as the belief that an emphasis on metrics leads philanthropists to focus on measurable results at the expense
of outcomes that are truly important. The conservative critics, following the political theorist Edmund Burke, argue that efforts at broad-scale social change are fraught with uncertainty and unanticipated bad consequences. They would have philanthropy support local community organizations without demanding particular outcomes. The liberals share this emphasis on local communities, but they also extoll philanthropy’s big bets on social movements, whether involving the environment or civil rights—again, without the constraints of specific outcomes and metrics.

Of course, there is good reason for caution in acting on social science findings. But the implication that we can never make good bets on social interventions is demonstrably false; it isn’t the way we live our own lives when we make decisions, say, about what kind of education to provide our children. For all of the complexities of evaluating social interventions and assessing whether they can be generalized to different settings, we sometimes know “what works” and what doesn’t. Indeed, the past decade saw the emergence of organizations that attempt to answer these questions at a granular level.¹

The concern that an obsession with metrics may limit a philanthropist’s ambition or scope is legitimate. My own view is that one should first choose goals and then make a serious effort to define measurable targets or reasonable proxies for them. Our experience at the Hewlett Foundation is that this usually takes us pretty far, but that sometimes we must make do with qualitative indicators of progress that fall far short of ultimate outcomes. Statistical analysis can provide a reasonable picture of the success of a de-worming program in Africa. But broad-scale social movements require long time horizons and patience with setbacks and periods of stasis.

Sievers argues that philanthropy should focus primarily on empowering civil society. Doubtless, this is a valuable goal, but so too are curing cancer and reducing poverty. Certainly the engagement of citizens is often an important means of achieving philanthropic goals as well as an end in itself. But not always. The proposition that philanthropy must devote itself to particular goals has surfaced in every decade. Rather than choose among the myriad possible candidates, I would prefer to continue the rich tradition of diverse ends and means that has characterized American philanthropy.

The Coming Decade

The decade ends with healthy debates on these issues in journals and blogs that did not exist at its inception, and with many of the institutions and practices mentioned in the preceding pages flourishing. It also ends with considerable interest in the use of social media to improve impact, and in crowdsourcing, design thinking, and other approaches to developing innovative ideas—though, unfortunately, less enthusiasm for scaling successful strategies.

Some of the most interesting innovations have involved nonprofit financing, including “pay-for-performance” schemes, in which funders pay grantee organizations only if they achieve agreed-upon outcome targets. There has been some experimentation with social impact bonds, which combine pay-for-performance with financial markets to scale up successful strategies. For example, in 2010, the United Kingdom offered £5 million of bonds to fund interventions by organizations with proven records of reducing recidivism among prisoners. The bondholders, who take greater than market risks, are repaid only if the organizations achieve certain milestones.

For all of the improved practices and new ideas of the past decade, philanthropy remains an underperformer in achieving social outcomes. One cause of this may be that philanthropists are essentially unaccountable. Businesses have shareholders, politicians have constituents, and nonprofits have funders. In contrast, philanthropists are spending their own money subject to only minimal constraints on their judgment. Of course, foundations have boards, but the boards are often themselves the primary decision makers and, in any event, are not externally accountable. In theory, the media can play a watchdog role. But even if they had the data and capacity necessary to monitor outcomes, their audiences tend to be more interested in personal anecdotes, especially tales of malfeasance.

Despite these shortcomings, I cannot think of a system of external accountability with bite that would not threaten the valuable diversity of American philanthropy—especially its ability to experiment and take risks. A more promising approach would center on self-imposed philanthropic transparency, which could provide donors with feedback that would inform their practices as well as improve sector-wide knowledge. As a starting point, foundations might hold themselves to the minimal Charting Impact disclosures about goals, strategies, and the like.

It is not surprising that donors who are unconcerned with improving their own practices are not interested in improving the practice of philanthropy more broadly. One consequence, however, is the continued weakness of many of the national membership organizations, regional associations of grantmakers, and community foundations on which small foundations and high net worth donors rely for philanthropic guidance. Perhaps because supporting the field seems self-indulgent, or because its benefits are indirect, abstract, and long term, some of the promising new organizations are underfunded.

Despite these problems, outcome-oriented philanthropy continues to have momentum. If there’s still more talk than action, talk often precedes action. With many new large foundations likely to come into being during the coming decade, there is a great opportunity to increase the sector’s impact. But for outcome-oriented philanthropy to take root will ultimately require a change in the mindset of high net worth donors about what it means to be a good philanthropist—perhaps no less ambitious a transformation than that achieved by the 40-year effort of conservative foundations to change citizens’ views of government or of the current movement to broaden the meaning of marriage. ²

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Notes

1. My thinking about the categories is influenced by, but does not entirely follow, Sean Stannard-Stockton’s taxonomy (http://www.sireview.org/blog/entry/the_three_core_approaches_to_effective_philanthropy). Although Stannard-Stockton reserves “strategic philanthropy” for the problem-solving approach, all outcome-oriented philanthropy is potentially strategic.

2. http://www.hopeconsulting.us/money-for-good

3. For example, the What Works Clearinghouse, Coalition for Evidence-Based Policy, PerformWell, and Root Cause.