FOUNDATIONS AND EVALUATION

Contexts and Practices for Effective Philanthropy

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CHAPTER FOUR

BUILDING STRONG FOUNDATION-GRANTEE RELATIONSHIPS

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The following case describing an evaluation of a summer camp program reveals the ease with which evaluators get tangled up in the complexities and deceits of foundation-grantee relationships.

Figuring Out Relationships: A Case of Mismatched Expectations

The program for kids was held at a school-based summer camp located in the school district's lower-income neighborhoods. At the time of funding, the grantee emphasized that the program was about fun, learning, and positive youth development and that its effects might carry over into enhanced student performance during the subsequent school year.

The foundation wanted to test that theory. Only one board member thought that continued support should hinge on evidence of academic outcomes, and he understood his position to be a minority one. The other foundation board and staff members, like the outside evaluators, were just curious: "Wouldn't it be cool to find that these few weeks in the summer are actually turning kids on to learning, even in regular school?"

The school superintendent went along: "Of course, we should evaluate on academic achievement—tests scores, attendance, grades. Let's do it all!" But when the evaluation plan was presented to teachers and principals, they balked. They could hardly believe that the foundation and their evaluation accomplices were taking their proposal rhetoric literally! "Creating lifelong learners." "Cultivating enthusiasm for math." "Wiping out truancy and teen-age pregnancy." They had included those out-

Cooperative, Businesslike Relationships

For many foundations, the relationship with grantees is very passive or businesslike. The foundation provides financial support for a specific proposal, and the grantee is funded to implement the proposal. The grant agreement specifies basic accountability reporting requirements, usually quarterly or annually, and a final summary report. Grantees are responsible for managing any evaluation within the scope and terms of the grant itself.

On occasion, for a large grant the foundation may commission an external evaluation. The foundation's relationship with the external evaluator is much like that with grantees—very businesslike. This relationship prevails most often when the foundation defines itself as primarily a grantmaker. That self-definition leads the foundation to focus on managing grants efficiently. Evaluation is part of that routine management.

Collaborative Relationships

Here, the foundation offers not only financial assets but staff expertise and a commitment to facilitating connections among key players in the sector. The foundation plays a convening role in bringing actors together, treating a group of grantees as an investment cluster. The foundation's "cluster evaluator" may help coordinate grant evaluations, provide technical assistance to local evaluators, facilitate development of common instrumentation across grantees, and aggregate individual grant evaluations to glean cumulative outcomes and lessons learned for the entire collaborative cluster. The cluster evaluator may provide advice to the foundation about managing collaboration, enhancing networking, and convening among grantees. The cluster evaluator may also investigate the quality of foundation-grantee relationships.

This collaborative relationship prevails most often when the foundation defines itself not just as a grantmaker but as an investor actively facilitating the change process through collaboration with grantees. A foundation's self-definition as a collaborative grantmaker leads the foundation to focus on facilitating connections and synergies among grantees, with evaluation used to monitor collaborative processes, provide feedback along the way, and, in some cases, become part of the connective tissue of the collaboration. In other words, evaluators can become part of the collaborative effort.

An example is the Kellogg Foundation's Grassroots Leadership Program. Over several years, more than twenty communities participated in the program, each with its own local evaluation. Kellogg's cluster evaluation team coordinated the local evaluations and organized an annual networking conference among grantees in which Kellogg staff participated. The evaluators came to be viewed as key par-

ticipants in the collaboration effort itself and played an especially important role in conceptualizing and defining the nature and outcomes of the collaboration.

Partnering Relationships

In some cases, a foundation may choose to move from collaboration to partnership. This typically involves substantial funds and long-term commitments to grantees in support of mutually developed and shared goals to bring about substantial change. In these cases, foundation staff and grantees design the grant together, work closely during implementation, use evaluation to adapt the implementation over time, and share accountability for results. Several funders may partner together, as well as work in partnership with multiple grantees.

The Northwest Area Foundation exemplifies this approach. The foundation no longer accepts requests for grants. Rather, the foundation is forming partnerships with select communities to develop long-term solutions to poverty. Once both the community and the foundation agree on a plan, they enter into a partnership agreement in which the foundation funds a significant part of the implementation costs, helps leverage additional funds, and dedicates staff to continuing full-time work on the partnership.

Evaluation begins with establishing baseline data on key community indicators and continues by providing monitoring data—process and outcomes data about specific initiatives, and, ultimately, summative data about reduction in poverty. The evaluators report to and serve *both* the foundation and the community, and the evaluation plays the role of helping keep the strategic initiatives focused on poverty reduction.

Birthing and Parenting Relationships

A foundation may create and endow a new entity when moving into an undeveloped area of work or into an arena that cuts across existing organizations. In such circumstances, evaluation becomes part of the organizational development process, helping the new entity create internal evaluation processes. This includes supporting the development of policies regarding external evaluation and facilitating the creation of a learning culture within and throughout the new entity. Organizational effectiveness and sustainability become special evaluation issues. Sharing evaluative information becomes part of the relationship between the foundation and the new entity, much as school evaluative information flows between a teacher and parents during a school conference.

The McKnight Foundation in Minnesota exemplifies this approach. It has created and endowed a housing alliance that cuts across the borders (and barriers) of

the Twin Cities of Minneapolis and St. Paul. During the farm crisis in Minnesota in the 1980s, McKnight created and endowed "Initiative Funds" in six regions throughout the state, each with its own mission, board of directors, and staff. In each case, external evaluators played an organizational development role, helping to assess capacity-building needs, providing technical assistance, creating internal evaluation procedures and external evaluation policies, and supplying organizational effectiveness data as both parent and offspring negotiated the nature of their ongoing and future relationships.

Operating Foundations

Operating foundations represent yet another variation on the funder-grantee relationship, one that is particularly close. The proximity presents special challenges. Operating foundations provide direct services and implement programs within the foundation structure. Sometimes an entire foundation is an operating foundation; in other instances, the operating program is a specific component within a larger foundation structure.

For example, the Blandin Community Leadership Program conducts leadership training within The Blandin Foundation, which also engages in traditional grantmaking. When the operating program resides within a larger foundation structure, the operating program is a grantee. The relationship between that grantee (the operating foundation) and the funding foundation can be unusually personal. In such cases, the evaluation function may provide some distance between the two entities. This ensures that independent and fair performance assessments flow back and forth. Evaluation provides a kind of mediating role.

Developmental Evaluation Relationships

In some cases, the evaluator role can be interdependent with foundation-grantee roles, as in developmental evaluation. *Developmental Evaluation* (Patton, 1994) refers to long-term relationships that evaluators may have with foundation staff and grantees when they are all engaged together in ongoing program or organizational development. The evaluator becomes part of the design team. All team members, working together, interpret evaluation findings and apply results to the next stage of development.

Developmentally oriented programs pursue the sometimes vague notion of ongoing social change. They eschew clear, specific, and measurable goals up-front because clarity, specificity, and measurability are limiting. They've identified an issue or problem and want to explore potential solutions, but they realize that where they end up will be different for different participants in the process.

The process often includes elements of *participatory evaluation,* for example, engaging foundation staff and grantees in setting goals and monitoring goal attainment, but those goals aren't fixed. They're milestones for assessing progress, subject to change as learning occurs. As the evaluation unfolds, program designers observe where they end up. They discuss what's possible and what's desirable and make adjustments accordingly.

An example is the Blandin Community Leadership Program, an operating program within The Blandin Foundation that is committed to supporting change aimed at healthy communities throughout Minnesota. The three external evaluators for the program became part of a design team that included a sociologist, a couple of psychologists, a communications specialist, some adult educators, the foundation's grantmaking program officers, and the operating foundation's program staff. All design team members had a range of expertise and experiences.

The relationship lasted more than six years and involved different evaluation approaches each year. During that time, the evaluators engaged in participant observation, conducted several different surveys, undertook field observations, gathered data through telephone interviews, generated case studies of individuals and communities, did cost analyses, helped with theory-of-change conceptualizations, facilitated futuring exercises, and supported training program participants to do their own evaluations. Each year, the program changed in significant ways, and new evaluation questions emerged. Program goals and strategies evolved. The evaluation evolved. No final report was ever written, as the program continues to evolve.

Challenges in Developing Useful Foundation-Grantee Relationships

Developing honest and open foundation-grantee relationships can be a rocky process. There are potential and real conflicts embedded in all the relationships we've described—conflicts born of differing rewards, incentives, interests, and risks. In the sections that follow, we explore some of the strains that can emerge in foundation-grantee relationships.

Barriers to Open Relationships in the Grant Development and Approval Process

Guarded relationships develop during the grant application process. Foundation staff learn to avoid making promises, lest they create funding expectations prior to final approval. Grantees learn to listen carefully and parrot back what

they believe funders want to hear. This relationship is often experienced as "a game of rhetorical persuasion where the rules regarding honesty and candor are suspended or subtly altered, just as they are in poker" (Hooker, 1987, p. 129). Or the foundation-grantee relationship can be described as a dance in which the funder leads and the prospective grantee follows.

Patton observed a foundation-grantee negotiation for a large grant to enhance the training of agricultural extension agents. The grant proposal focused on knowledge and behavior changes among extension agents. The funder insisted that, in order to get board approval, the proposal would have to include a 10 percent increase in farmer incomes annually. The grantee shyly noted that (1) a 10 percent income increase annually seemed awfully high, and (2) the grant's proposed outcomes focused on the results of extension training. Any subsequent increases in farmer income would only occur after the grant period, when the trained extension agents worked with farmers. The funder's response was, "Our new president is outcomes-driven. I can't take this to my president and board without showing a substantial impact on farmers' incomes." So the grantee added the dubious "increase in farmer income" result (outcome). The grantee's explanation was to invoke the time-honored golden rule: "He who has the gold makes the rules."

In another case, a proposal to provide technology resources to low-income families as an experiment in community organizing met with board resistance. The board insisted that the project add job outcomes for the families receiving the assistance. A foundation board certainly has the power to ask for such changes but should only do so as part of a rethinking of the fit between the outcomes and the proposed strategies. This practice illustrates the power dynamics of foundation-grantee relationships and the ways in which the power inequities can affect both the proposed outcomes and the ultimate evaluation findings.

Effects of Initial Contacts

Applicants with considerable experience and good connections may start out talking to a foundation trustee or president. Grant applicants entering the process through high-level contacts may feel immune to evaluation. When a foundation president hands off a favorite idea to a junior staff member for follow-through, the impression may be given (accurately, in some cases) that the proposal will get privileged consideration, including exemption from evaluation.

Another way an applicant may enter the process is through a foundation-designated point of contact. Foundations may simplify the application process by providing one point of contact that remains stable over time. As this staff member forms a relationship with nonprofit organizations, there is a chance to increase levels of trust and thereby arrive at the kind of candor needed to make evaluation

meaningful. If an applicant's contact is continually changing, however, it may increase frustration and diminish the usefulness of planning phases.

Evaluation as a Tool for Compliance

With foundations trained to keep their eyes on the grant horizon, grant recipients' reports and evaluations are notoriously underused. One of grantees' most common complaints is that they dutifully submit reports to foundations and wait in vain for feedback. Then grantees fail to take reporting seriously. Prompting from program officers and threats of delayed grant payments create an impression that the reports are somehow urgently needed by the foundation. In fact, reporting is usually a compliance function. Few foundations, in our experience, have mechanisms and processes for systematically harvesting wisdom from grantees' reports.

Foundations are so driven by proposal review and payout that few have time or incentives for dealing with the back-end processes of learning from evaluation. It's not that evaluations aren't required and commissioned. It's that the results aren't used. Evaluation becomes a compliance function—Did the evaluation report get submitted?—rather than a learning function. Many foundations have incorporated the rhetoric of learning into their grantmaking and evaluations, but our experience suggests that few have mechanisms for using evaluation findings in new grant decisions.

Foundations' operating structures usually provide little incentive for staff to report negative findings to their boards. There is incentive for staff to stay focused on the next round of grants, not to spend time reviewing old and unfortunate history. Of course, program officers are encouraged to share success stories and anecdotes—the kind of positive results that fill the pages of foundations' annual reports. Rare are the annual reports that disclose and discuss failures. All of this feeds cynicism and reduces the likelihood of honest dialogue about what works and doesn't work.

Frustration Over Small and Matching Grants

Small planning or pilot grants are common tools for foundations testing new relationships before making a major financial commitment. However, these small grants have proven especially frustrating for grantees when, at the close of the initial process, it becomes clear that the foundation is not prepared to entertain a full proposal in a timely manner (Backer and Bare, 2002).

Foundation grants that require recipients to raise dollars to match all or some of the award have implications for foundation-grantee relationships. On the positive side, the matching requirement can help grantees raise additional funds.

However, if grantees cannot meet the requirement, the condition may trigger problems for the organization and foundation. Planned activities may be shelved. The relationship with the foundation may sour. Fundraising may cause grantees to neglect other responsibilities. For a foundation that believes the match is necessary for the strategy to succeed, the condition can protect foundation dollars. Yet a foundation with too many unpaid matching grants on its books may find it difficult to meet payout requirements.

Power and Consensus

Consider the case of a community foundation working with an inner-city community to set up a committee to advise on grants. After the local committee put in long hours to develop review procedures for community grants, the committee members came to resent being second-guessed by "the suits" in the foundation board room. The foundation's ten-year commitment to the community was endangered. Eventually, the community foundation resolved the crisis by devolving decision-making authority to the community but demanding more accountability.

In community-based planning, shared decision making by foundation staff, community stakeholders, and grantees can enhance effectiveness. Beierle's analysis of many cases reveals that stakeholder involvement results in higher-quality decisions (Beierle, 2002). Further, the more intensive the process, the more value stakeholders add. The most intensive efforts in Beierle's review "involved negotiations and mediations in which participants—usually formally representing interest groups—formulated consensual agreements that would bind their organizations to particular courses of action" (p. 743). These findings support the call for an emphasis on deeper engagement in new, community-based models (Heath, Bradshaw, and Lee, 2002).

Difficulty of Capacity-Building Initiatives

Poor progress on the capacity-building component of a grant may jeopardize the nonprofit organization's overall relationship with the foundation. Learning one troubling thing about a nonprofit may influence a foundation's view of the entire organization. Likewise, nonprofits coordinating multiple strategies for a single foundation may find all of the different projects put in jeopardy if there is an unpleasant experience with just one of them. Grantees may be so anxious to receive funding that they agree to most any capacity-building condition in order to receive the project support. When this happens, the grantee's disinterest in

the capacity work is almost certain to emerge after the project dollars arrive. When it does, it may cause the foundation to lose trust in its partner.

Complications from Public Communications

The degree to which a foundation draws public attention to its social change efforts can complicate grantee relationships. Recently, a large foundation ran into unexpected hazards when making high-profile announcements about a cluster of grants. Several small nonprofits were upset because the awards were announced in a manner that made it appear they each had received substantial grants. In fact, the award was actually a collection of relatively small grants to be divided up among several organizations within the collaboration. Further, the intermediary organization charged with passing along grant funds to smaller partners was perceived as a barrier preventing the small organizations from developing relationships with the foundation. These issues would have emerged under any circumstances, but the foundation's highly public announcements made things more complicated and damaged the relationships, which in turn slowed progress on evaluation planning.

Confusion About Guidelines

Grantees are often confused by guidelines that seem clear to the foundation. One example is the widespread policy of limiting grant renewals, even if the grant is successful. From the grantee's perspective, the foundation's unwillingness to make case-by-case decisions about the merits of a proposed grant renewal is an excuse for not making a real decision. This can impair trust. It can also lead the grantee to reframe the project in some "innovative" package, simply for the purpose of disguising a continuation grant as a new project.

We hear a great many complaints about foundations' unrealistic expectations concerning sustainability, especially when grant support runs only one to three years. Governments aren't picking up new programs anymore. Foundations seldom want to fund another foundation's success; they want their own projects. In the current climate, most nonprofit organizations are cutting back. Under these conditions, evaluators can help foundations and grantees align their expectations regarding sustainability.

A different kind of grantee complaint emerges from multifunder collaborations. Grantees find it especially taxing when each foundation requires different data in different formats. Grantees are often reluctant to complain openly about the onerous nature of this lack of coordination among funders for fear

of alienating a funder and losing support. But in private, we often hear from grantees about funders unable to collaborate among themselves to coordinate reporting requirements, schedules, and frameworks.

Ways Evaluation Can Promote Change and Improve Relationships

Foundations can enhance evaluation use by clarifying decisions regarding who will use evaluative information and for what purposes (Patton, 1997). One of The John S. and James L. Knight Foundation's partners, in its initiative to reduce youth violence and promote youth development, demonstrated how evidence can be used for making real-time program adjustments. The foundation planned for grantees to be responsible for their own evaluations and provided them with technical assistance. The grantees were to be the primary users of their own evaluation information.

However, a grantee expanding an in-school alternative education program serving youth at risk of school failure found that empirical evidence on math and English achievement gains did not live up to the positive reports from youth, parents, teachers, and principals. So the program made changes. It adjusted its target population to focus on the at-risk youth most likely to improve their school performance. It moved away from a focus on homework help and brought in teachers licensed in math and English to teach the subject matter. Most important, the program began working to identify short-term outcomes closer in proximity to the intervention.

All of this occurred during the Knight Foundation's three-year grant. The foundation did not provide a second round of funding to assist with the new changes, so there was no additional benefit or reward for the approach taken. A foundation could send stronger signals by providing additional grant support to grant recipients that distinguish themselves in terms of candor, learning, and use of evidence. This requires foundations to reward experimenters who honestly report problems and propose remedies, not just those who report that things worked well.

Ways Evaluation Can Harm Relationships

In deciding whether to undertake an evaluation, foundations and grantees must weigh the potential benefits against the potential negative side effects. Several potential side effects are discussed next.

• *Evaluation can tell funders more than they want to know and surface issues they'd rather not face.* For a number of years, a large, rich suburban church paid for a program run by a small, poor urban church for the benefit of its inner-city neighborhood. Thinking it was the responsible thing to do after so many years and so many dollars, the big church commissioned an evaluation. The findings were mostly favorable. "Just one thing," noted the evaluator in her final briefing. "It turns out this program has an exorbitant cost per participant. I understand that you don't expect God's work to be cheap, but all it would take to bring this price down from scandalous to merely generous would be to beat the bushes a little to keep enrollment up to capacity. It's not like the need isn't out there."

Jaws dropped. It was hard to say who was more astounded. The little church was embarrassed and defensive, but it was the big church's trustees who took the evaluator by surprise. Efficiency wasn't on their minds at all. Maximizing returns on their philanthropic investments wasn't, either. They were working from the charity model of philanthropy, and all they wanted to hear was that their grants were doing good. So far, they'd managed to smooth over the paternalism underlying the congregations' relationship. The evaluation had put the notion of accountability right on the table. Neither side knew what to do.

• *Evaluation can tell foundation leaders more than the program officers want them to know.* In one case, a hands-on program officer persistently favored even the frailest of grassroots efforts if he viewed them as helpful to kids. His downfall was that he favored evaluation as well. Although this officer was usually able to shepherd grantees through the foundation's routine scrutiny, finding evaluators who are willing and able to join the conspiracy proved to be a challenge. Evaluators continually pointed to weaknesses—things like cockroaches in the facilities, flaky accounting, loosely screened staff—that the foundation's leaders had a hard time looking past. The program officer found himself needing to balance his quest for knowledge against the trusting relationships he had cultivated deep down in the trenches.

• *Evaluation can insulate foundation staff from grant recipients.* Especially in foundations that adopt a "lean and mean" staffing strategy, lines blur between grant monitoring and external evaluation. Staff may lose touch. At the end of a long evaluation interview, one grant recipient offered this final remark: "Yes, there's something else I'd like to say to the foundation! This is the ninth consultant you've sent my way in under three years. Next time, come yourself!"

• *The evaluation burden can make a grant cost more than it's worth.* The CEO of a human services agency put it succinctly: "Yeah, these foundations, you know how

they are. Their idea of 'leveraging' is to cover 8 percent of your budget, then think they get to run your operation however strikes their fancy." This too often includes foundation-imposed evaluation mandates, sometimes unfunded.

The United Way push for outcome reporting, for example, caught many agencies off guard. In several communities, United Way jumped on the bandwagon before they themselves knew how to do performance measurement. They ended up offering their agencies technical assistance to build evaluation capacity, which met the needs of only some agencies. Even then, agencies were often expected to produce outcome data before the internal capacity was built and without supplemental funding to cover data collection and other hard costs. The approach created resentment toward evaluation and reporting, as well as toward United Way.

• *A cluster evaluation can make grantees feel like "data points," which, in fact, they sometimes are.* In cross-site or cluster evaluations, each project's contact with the evaluator may consist of no more than a single site visit. Administrative data available from the funder are all it takes to round the picture out for the purpose the evaluation is to accomplish. But that can leave grantees on edge. One cluster evaluator reports hearing from grantees, "Are you *sure* that's all you need from us?" Between the lines the grantee is saying: "You mean you're going to report on us to our funder, based on nothing more than *that?*" The challenge is to find a way of explaining that the evaluation isn't designed to draw conclusions about individual projects. At the least, referring to people and their grant as "data points" isn't helpful to relationship building.

• *Evaluation consultants are often seen as representing the foundation.* It happens all the time when an evaluator visits grantees. He explains very carefully that he is not a foundation employee, just a consultant hired for an assignment. The host listens, nods his head, then turns around and introduces the evaluator: "Please join me in welcoming Dr. Smith, from our very generous sponsor, the XYZ Foundation. He's here today to evaluate us."

Our advice for foundations: Don't hire a consultant you wouldn't want mistaken for your vice president. Make sure anyone you send out gets briefed on your culture and etiquette. A pioneer in foundation evaluation learned this lesson early when the foundation hired a talented scholar with impeccable credentials for one of its first evaluation assignments. As a New Yorker, she didn't give a second thought to taking a limousine from the airport. It hadn't occurred to her that the Holiday Inn might be the only hotel in the county she was visiting or that no limousine had ever been seen there before. It made a splash when she pulled up to the high school in a chauffeured stretch—but not quite the impression the foundation had in mind.

• *Heavy-handed funders get in the way of good evaluation.* When foundations place nonessential burdens on grant recipients, the relationship suffers, and evaluation loses out. An evaluator complained that one foundation's grantees were the whiniest she'd ever encountered. A half-hour telephone interview was more than some would graciously give. Things came into focus, though, when she learned that the foundation required all grantees to submit periodic financial reports for their whole organization (not just grant funds) in a uniform format the foundation had concocted. Grant recipients were to map their own revenue and expense categories onto the foundation's—essentially, keep two sets of books. There was no explanation as to how the foundation would use this information.

• *Evaluators can be useful as translators, but they can also get in the way of much-needed direct communication between foundations and grantees.* On the other end of the continuum is the problem of treading too lightly. One foundation is so timid about interfering that grantees (and more so, applicants) cling to any clue as to the foundation's preferences. The grantees may view the evaluator as someone on the inside who can help explain the workings of this mysterious black box. Some evaluators are comfortable playing that role, and some aren't; still others overplay it to enhance their own status.

• *Evaluators can be compared to axe murderers.* Some funders use evaluation as a ruse for justifying decisions already made. Rather than the foundation owning a decision to walk away from a grant, an evaluation is designed in such a way as to guarantee negative findings. Then the evaluation bears the burden of what, from the grantee's perspective, is an unfair decision. Lore among professional evaluators about the dangers of being used as program axe murderers has evaluators on the watch for such misuses, but that doesn't always keep it from happening, especially with less experienced evaluators.

Enhancing Foundation-Grantee Communications and Effectiveness Through Risk Analysis

Introducing the notion of risk into foundation-grantee relationships is a way of acknowledging that things seldom turn out as planned. There are plenty of adages to remind us that human endeavors carry risks: "Even the best laid plans. . . ." "Many a slip twixt cup and lip." "Nothing entertains God more than watching humans plan."

Risk analysis may help foundations and grantees become more realistic and honest about the challenges of attaining stated outcomes. Without a more candid

approach to identifying and addressing potential hazards, foundations may perpetuate the "sham" of foundations asking grant recipients to achieve grant outcomes "with wholly inadequate resources and tools" (Schorr, 1999, p. 42). Foundations must either be willing to "expect less from limited investments or to invest more to operate at the level of intensity that is necessary to achieve promised results" (p. 42). Risk analysis begins with an assessment of the consequences of what's most likely to go wrong, as foundations and grantees address the following questions:

- What can go wrong?
- What is the likelihood that it would go wrong?
- What are the consequences, and how bad would they be?

Longstaff, Haimes, and Sledge (2002, p. 4) define *risk analysis* as "an anticipatory disciplined process, proactive rather than reactive. It is holistic in that it addresses all plausible scenarios, rather than simply managing convenient common problems." Addressing risks at the outset of the grant development process can make contingency planning the basis for foundation-grantee interaction, pushing foundation staff and grantees to figure out how they might respond when hazards materialize. This places a premium on using "high-quality" lessons to advance learning and problem solving (Patton, 2001, p. 333).

The William and Flora Hewlett Foundation is one of the few foundations that attempts a public explanation about its concept of risk:

> A considerable part of the Hewlett Foundation's grants budget is devoted to relatively risky investments that have the potential for high social returns. A "risky" investment in this sense is one where the desired outcome—for example, restoring an endangered ecosystem or improving the lives of disadvantaged youth—is by no means assured. Responsible risk taking requires specifying the intended outcomes and measures of success and monitoring progress during the implementation of a grant. There are other forms of risk as well—for example, the risk to the Foundation's reputation when it supports a controversial project, or the possibility of a well-intentioned philanthropic initiative causing unintended harms—that can be mitigated only by watchfulness and good judgment. (William and Flora Hewlett Foundation, 2001, p. 9)

Because it is impossible and impractical to consider every potential surprise, risk analysis should enable foundations and grantees to agree on interim check-in points. These moments should allow foundations and grantees to hold real-life ex-

periences up against their planning lens to see how actual events compare to what was anticipated.

When foundations' commitment to learning fails to live up to their rhetoric favoring innovative ventures, the notion of risk will take on a "stigma" that causes program staff to steer clear (Kunreuther, 2002). We've all heard foundation presidents and boards say to staff and grantees: "Be innovative. Take risks. Just make sure you succeed." Staff and grantees react by avoiding risk. And since fomenting genuine social change is among the riskiest of strategies, fear of failure is likely to trump the call for innovation, resulting in safer, more predictable efforts—ultimately yielding less social change, less experimentation, and less learning.

Scenario Planning

In traditional risk calculations (the probability of an occurrence multiplied by the severity of the consequences associated with the hazard), risk analysts have always considered easy-to-measure variables such as dollar costs, health effects, and the loss of life. These days, they have added in the kind of variables that influence foundation-grantee relationships:

> Rather than basing one's choices simply on the likelihood and consequences of different events, as normative models of decision making suggest one do, individuals are also influenced in their choices by emotional factors such as fear, worry and love. (Kunreuther, 2002, p. 659)

Foundation-grantee relationships can be illuminated by inquiring into risk. In the financial sector, investors agree to commit funds for a specified duration in the hope of realizing a dollar return that falls within an acceptable range. There is typically a correlation between risk and reward. Patton (2002) developed a training exercise to help foundation staff and trustees take up the subject of risk directly. In teaching these sessions, Patton presents risk in a way familiar to foundation staff, grantees, or trustees by asking them to fit various types of grants into the same categories chief investment officers use to diversify foundations' portfolios. For example, participants in the exercise are asked to identify the equivalent of a Blue Chip grant (one to a well-established, highly reputable grantee with a long and successful track record). Then they are asked to identify other kinds of grants similar to different types of investments, for example, small cap stocks, value stocks, venture capital, and bonds. As participants discuss the results, they come to see that the relationship between risk and return, which is well documented in the financial world, also holds in the grantmaking world. This exercise provides a way of opening up the risk-return dialogue so that trustees and staff can think

about how much risk they can tolerate in relation to the kinds of effects they aspire to achieve.

Evaluating Types of Risk

In foundation-grantee conversations about risk, it's helpful to break the "what can go wrong?" question into three interdependent categories: (1) idea risk, (2) implementation risk, and (3) evidence risk (Bare, 2002).

- *Idea risk:* How clear, well-tested, and logical is the intervention idea?
- *Implementation risk:* What are the challenges to implementing the idea?
- *Evidence risk:* How difficult will it be to evaluate the idea's effectiveness or its implementation?

This is an elaboration of a longstanding distinction between theory failure and implementation failure. A theory—a grant idea or strategy—cannot be judged unless it is implemented with some fidelity. Good ideas can be rejected as ineffective when, in fact, they never get a fair test. Untangling idea risk and implementation risk is essential for foundations interested in improving their learning. In some cases, more conceptual work is needed to improve the theory of action. In others, more technical assistance is needed to help grantees execute. Considering evidence risk helps foundations and grantees get clear with each other about what can, should, and will be evaluated.

Exhibit 4.1 presents a list of factors that can affect each type of risk. Developed by the program staff of The John S. and James L. Knight Foundation, the list offers, in common language, several foundation-grantee discussions of potential hazards.

In the Knight Foundation's initiative to reduce youth violence and promote youth development, most grantees ran into hazards not accounted for in the grant proposal. A cumbersome purchasing process delayed one grantee's launch nearly a year. Another program was slowed by a common difficulty: not all of the local partners shared the same enthusiasm for the project. A program with support from multiple foundations had to change its design when the largest funder pulled out. At one site, a building that was intended to house part of the programming fell into serious disrepair. Leaders at another program became so immersed in creating an information-management system that they eventually became overwhelmed by the magnitude of their own database. They were not sure how to use the resource. If the foundation had included risk analysis as part of the grant development process, potential remedies might have been at hand.

EXHIBIT 4.1. RISK FACTORS.

Environmental turbulence: The conditions in which the foundation is working may be changing, due to instability within a given community or the fluid nature of a public issue.

Needs of the target population: Individuals, families, and neighborhoods with severe or multiple needs present foundations with greater challenges. Ongoing unmet needs may overwhelm gains.

Time horizon: Foundations find it difficult to pinpoint the time needed to produce desired changes. When foundations are impatient, they may miss opportunities. In other cases, pressures may cause them to support a nonperforming investment past the point at which adjustments might have worked.

Implementer's history: An organization's track record is no guarantee of future performance, but it is one element for foundations to consider.

Size of the investment: Foundation investments that carry large price tags or put the foundation's reputation on the line raise the prospect of special hazards.

Clarity of the logic model: Ambiguity regarding the desired outcomes and the proposed theory of action mean that different stakeholders are able to proceed under different assumptions. This makes it difficult to make adjustments when things get off track, given that there may be no consensus as to what "off track" means.

Sustainability: A question foundations often ask is, What happens when our funding ends? Failing to agree on a strategy for sustaining the program can cause hard feelings when a foundation and grantee part ways.

Degree of controversy: Hot-button issues draw enough attention that foundations and grant recipients find it hard to work through problems and give ideas a fair test. Further, stakeholders are more likely to base decisions on values, not on program results documented through evaluation.

Complexity: Cumbersome investments and programs are more troublesome than elegant ones. Everyone likes to understand where the money is going and how the activities are associated with the desired outcomes.

Leadership: Leadership issues represent an entire field of study. Foundations must understand the formal and informal influence individuals exert over a program's design, implementation, and sustainability.

EXHIBIT 4.1. RISK FACTORS. *(continued)*

Novelty of the idea: New concepts bring their own types of problems. Foundations must attend to the special needs of untested ideas.

Nature of capacity needed: Foundations must always ask the question, Capacity for what? Capacity checklists are everywhere these days, but it requires careful thinking to understand the capacities needed for a particular mission.

Visibility of the effort: Programs that have the benefit of a quiet trial-and-error process may get a better test than programs for which every decision is part of a public debate.

Partners' relationships: Collaborations can be difficult to sustain through the staff and program changes that inevitably occur.

Number and nature of foundation investors: The greater the number of foundations involved, the more directions in which nonprofit organizations may be pulled.

Degree of consensus on advisory committees: Many foundations use advisory groups to increase their technical knowledge or their understanding of complex communities. These devices bring with them their own challenges, especially if buy-in and contributions must be sustained as roles change over time.

Degree of politicization: Situations that already are highly charged require foundations to make use of political skills instead of relying solely on the usual technical or grantsmanship skills.

Potential for negative side effects: The consequences of foundation efforts may include outcomes other than "no effect" or "positive effects." Foundations may support programs that cause harm, and foundations' own strategies have the potential to damage individuals, families, or communities.

Rifle-shot approach versus natural variation: Rarely does a single approach work identically for all populations in all situations at all moments in time. It diminishes risk to match subgroups with solutions that suit them.

Depth of knowledge base: Foundations working in areas where there is little practical or research experience run into challenges. Similarly, foundations that do not make use of existing knowledge may repeat mistakes.

Hidden assumptions: Foundations fail to be explicit about different scenarios and various programmatic options when they fail to recognize and test their assumptions.

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Conclusion

In this chapter, we've reviewed a number of ways in which foundation-grantee relationships can be strained at various points in the grantmaking process. Evaluation can be a particular source of strain and tension because it raises the stakes and evokes natural fears about being judged and found wanting. Clear and ongoing communications can alleviate some, but not all, of these fears. One focus we've suggested for strengthening honest, evaluative conversations between foundation staff and grantees is careful and ongoing risk analysis that promotes candor, shared learning, and contingency planning.

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