Coming Up!

in *Harvard Business Review*:

The Competitive Advantage of Corporate Philanthropy

The December 2002 issue of *Harvard Business Review* will feature a new article on corporate philanthropy by FSG co-founders Michael E. Porter and Mark R. Kramer.

In the article, the authors argue that many current corporate giving practices result in diffuse and ineffective philanthropy that fails to harness the true potential of corporate giving to achieve both social and corporate benefits. The key to effective corporate philanthropy is focusing on those social issues that impact the corporation's competitive context, while leveraging unique corporate attributes—industry expertise, global reach, supplier networks, organizational skills, and the like—to unlock the true potential of corporate philanthropy.

If you'd like to read the whole article, please call or e-mail us. We'll send you a reprint as soon as the article is published.

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About FSG

FSG is a professional consulting firm exclusively dedicated to helping community, corporate, private, and family foundations increase their effectiveness.

We offer objective analysis and confidential counsel on strategy, organizational alignment, strategic communications, governance, leadership, foundation-wide assessment, and community foundation donor development.

We invest in innovative ideas and we partner with our clients to help them do good, better.

For more information call us or visit our Web site.

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FSG FOUNDATION STRATEGY GROUP
Perspectives on Corporate Philanthropy

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In this issue:

Allocating Resources in a Time of Scarcity

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Perspectives on Corporate Philanthropy

Fall 2002

Allocating Resources in a Time of Scarcity

By Mark R. Kramer and John V. Kania

Across the country, foundations are cutting back their grantmaking budgets and struggling to reallocate their resources among their many programs and grantees.

Strategy and leadership are about making tough choices and, in a time of scarcity, making the right choices is even more important. As a result, this should be the golden age of evaluation—with data enabling foundations to identify their most effective initiatives and eliminate those that have the least impact. Instead, this process has highlighted the limitations of grant-level evaluation, and demonstrated the need for new tools that can compare the value created across different program areas.

Some foundations have decided that the fairest solution is to cut back all programs equally. This is really a non-choice, assuming that the foundation plays an equally effective role in every area. Yet a foundation's uniqueness inevitably positions it to address some issues more effectively than others. Choosing where to cut back, therefore, is really an exercise in identifying where the foundation creates the greatest value.

Grant-level Evaluation

In theory, evaluating grants should help a foundation better allocate its resources but, in reality, it seldom does. Why? Because it has four critical shortcomings as a strategic management tool:

- *Its verdict is rarely conclusive.* Often, the results are too ambiguous to draw any conclusions: the grant was effective to a degree, but not to the hoped for extent. Making decisions about a grant that is either a dramatic success or a clear failure is easy, but few evaluations return such clear answers.
- *It is neither additive, nor generalizable.* It may tell us if a grant was effective in helping to strengthen local arts organizations, but it offers no clear way to understand the effectiveness of the program as a whole nor to compare impact in one area with that from another program area, such as improving health outcomes.
- *It fails to capture the foundation's value-added.* Non grant-making activities—such as advocacy, knowledge development, communications, and direct service—commonly play a critical role in program and foundation-level strategies. These efforts can only be evaluated in the context of a clear and well-developed strategy. And even with a strategy in place, independent measures that can cut across different program areas or timeframes, such as metrics of value creation, are only beginning to be developed.
- *It discourages necessary risk taking.* Its implicit assumption is that each grant should succeed. Yet for an innovative foundation, one out of ten grants might be an immense success, but when looked at individually the nine failures take on greater importance, even if those nine

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FSG News

West Coast Office

Effective December 1, we have added a new office in San Francisco to better serve our West Coast clients, under the leadership of Vice President Fay Hanleybrown. Our address is:

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Clients

FSG has worked with a wide range of clients and issues so far this year:

- We worked with *MELMAC*, a new educational loan conversion foundation, to conduct a scan and **needs assessment of education in the State of Maine**. Beyond assessing need, we worked with them to identify high-potential **opportunities for intervention**.
- A large European private foundation with a desire to promote greater global engagement by U.S. philanthropic institutions retained us to **map the overseas funding patterns of U.S. foundations** and to detail both the motivations for and obstacles to increased overseas funding.
- For *The Pittsburgh Foundation*, we conducted a complete **strategy assessment**, including an examination of the Foundation's donor market and **development strategies**, a **scan of the funding landscape** in its issue areas, and a narrowing of **grantmaking objectives**.
- We helped the *Pfizer Foundation* **design a grants selection process** for a new

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Allocating Resources in a Time of Scarcity

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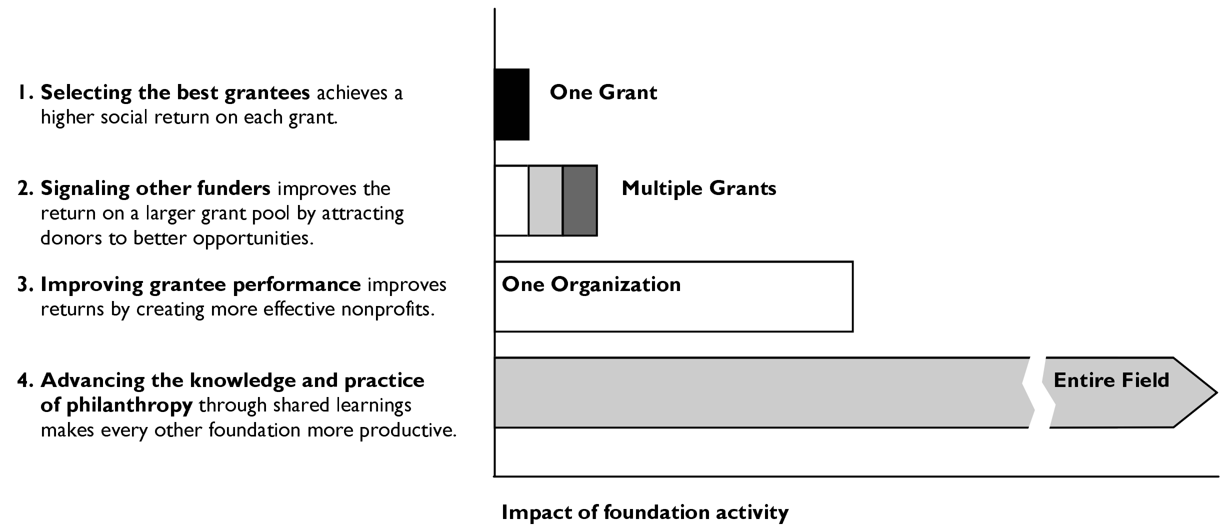

FIGURE 1

were necessary to achieve the tenth, and more than justified by it.

Moreover, even if grant-level evaluation were the right measure, the data is not broadly available, given the time and cost involved in gathering it. A recent study[1] found that even among the largest U. S. foundations, nearly 30% of foundations evaluate fewer than 10% of their grants, and more than half evaluate fewer than 50%. This level data is insufficient to fairly assess the success of clusters or programs, let alone to re-allocate resources within entire foundations.

A Different Approach

We are working to develop new evaluation metrics that can support foundation leadership in making tough resource allocation decisions.

Earlier this year, we completed an analysis for a client active in several different program areas. The primary initiatives in each program area already had been the subject of formal evaluations led by teams of academic experts from leading universities. The results pronounced each program a major success, though noting some opportunities for each to further improve. The foundation also tracked the leverage their funds had achieved, and was justifiably proud of the fact that, on average, they had leveraged $9 dollars for each dollar they invested. Unfortunately, however, the foundation was faced with the need to substantially cut back its grantmaking, and the fact that each of its major programs was a success told management nothing about where to cut back.

To help them, we turned back to the basic ways in which foundations create value[2]. first described in Foundations create value in four ways:

- Selecting the most effective grantees,
- Signaling and collaborating with other funders,
- Helping grantees improve their performance, and
- Advancing knowledge and practice within a field.

These forms of value creation are not equal in impact; instead foundations achieve more leverage as they move down the list. (See Figure 1) They are also independent of program area objectives. A foundation can compare the value created through, say, signaling across several different program areas, even if they are as diverse as arts, education, environment and health.

But can the value created be measured? While not yet as precise as the highly-developed process of formal grant evaluation, our experience suggests that value creation can be measured on a relative basis sufficiently well to identify stronger and weaker program areas within a foundation. The process involves close internal work with staff, as well as outside data gathering from interviews of other funders, thought leaders, grantees, non-grantees and other relevant constituencies.

Taking this approach with our multi-program client, we worked through the process of looking at the value created by each program area, and found measurable differences among them. The foundation was especially good at selecting effective grantees and signaling other funders. Yet even here, some programs were better than others. And, within the more powerful forms of creating value through helping grantees and advancing knowledge, there were very substantial differences between programs.

In good times, such information enables different program officers to learn from each other and improve overall foundation performance. In difficult times like now, this information proved crucial to decisions by the CEO and Board about which programs to cut back so that the foundation could, consistent with the donor's values, focus on the areas where it was most effective.

Conducting Foundation-wide Evaluation

In today's difficult economic times, it is essential to review all aspects of a foundation's performance to ***maximize the impact of every expenditure***. Evaluating grants is a necessary step, but it is limited by the cost and time involved. Grant-level evaluation cannot be aggregated to give foundation leaders the information they need to assess and guide overall foundation performance.

FSG has developed a process for examining the overall value that a foundation creates through all of its activities. The results are based on a synthesis of ***staff input***, ***external interviews***, and ***independent research*** to assess impact along the four dimensions of value creation. FSG's analysis is customized around each foundation's strategy, enabling comparisons of effectiveness between different program areas and highlighting ***opportunities for greater impact***.

For more information, please contact Mark Kramer or John Kania at 617-357-4000.

[1] *Indicators of Effectiveness: Understanding and Improving Foundation Performance*, The Center for Effective Philanthropy, 2002.

[2] See Porter and Kramer; *Philanthropy's New Agenda: Creating Value*, *Harvard Business Review*, November/December 1999.

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program area. FSG created a four-stage proposal review process, selection criteria, and **facilitated initial proposal ranking** with foundation staff and external experts.

- We **expanded the strategy and created a new business plan** for *Medicines for Malaria Ventures*, a Swiss-based foundation that is the leading global funder of R&D for anti-malarial drugs. Our work encompassed the development of a **complex model** to simulate drug development outcomes, developed in cooperation with a leading authority from Harvard Business School, as well as the **organizational structure, financial plan, and performance metrics** needed to ensure success.

Seminar

Our seminar Strategies for Impact was a great success. Over 60 senior foundation executives and Trustees—from organizations ranging in size from $10 million to $9 billion—attended the two-day session.

A Growing Team

We are delighted that three new Consultants have joined our team:

Fay Hanleybrown, Vice President, responsible for FSG's West Coast office. Having helped to establish FSG in Boston, she subsequently worked for McKinsey & Co. in San Francisco, where she served both nonprofit and corporate clients before returning to FSG this summer.

Henry Culbreath, who joined us after completing his MPP at Harvard's Kennedy School of Government, has significant nonprofit experience both through his strategy and evaluation work at Catalyst Alliance as well as at a nonprofit that he co-founded to mentor underprivileged youth.

Sunder Ramakrishnan, joined us from Vertex Partners/Braun Consulting where he focused on strategy. His nonprofit experience includes work with the Longwood Symphony Orchestra and Rhode Island Legal Services.