

2008 BUDGET MEMORANDUM PHILANTHROPY PROGRAM

OVERVIEW

Philanthropy is growing—total giving in 2007 was \$306 billion in the United States alone—but donors remain largely unable to determine the impact of their giving. And high-performing nonprofits are even more frustrated by a system that does not reward excellence or facilitate the growth of the strongest organizations.

We believe that there is an opportunity to improve this system by providing donors with tools and resources to make fact-based, impact-oriented philanthropic decisions. Recent turmoil in the financial markets is likely to slow giving and distract potential private-sector partners. But unstoppable demographic trends and a strong culture of giving will bring trillions of dollars into the philanthropic marketplace over the next few years. It is, therefore, all the more important that we help build a system in which donors use good information and good practices to make good decisions.

The Philanthropy Program's biggest success in 2008 was the partnership between DonorEdge and GuideStar, which we funded and helped facilitate. DonorEdge provides information about the performance of local nonprofit organizations to donors with funds at community foundations—a multibillion-dollar market. The network of community foundations that use the DonorEdge platform have close relationships with donors and nonprofits in their respective communities. GuideStar, a database of 1.4 million nonprofits, provides technological expertise, a national perspective, and built-in scalability. This partnership integrates their strengths and offers the potential for a national database of nonprofit information rooted in local relationships. This initiative is emblematic of the kind of organizational-level cooperation we believe is necessary to reach a critical mass of performance data, engaged donors, and smart decisions.

We engaged McKinsey & Company in summer 2007 to analyze the current nonprofit marketplace and propose a vision for making it stronger and more effective. Crafting this vision was an immense intellectual and practical challenge. McKinsey provided superior research and analysis, and we will be systematically sharing the paper with the nonprofit community, donors, banks, and financial advisors, among others.

COMPONENT: Practice of Philanthropy

To support effective grantmaking, the Philanthropy Program funds organizations that educate donors about good practices, provide data about nonprofit performance, and build knowledge about strategic philanthropy.

Progress in 2008

As noted above, a priority for the Philanthropy Program in 2008 was to advance the provision of good information about nonprofit performance. We invested much time in a partnership with McKinsey crafting an alternative vision for the nonprofit marketplace and better articulating that vision with our close allies.

In July, the Foundation hosted a gathering of psychologists and behavioral economists to discuss an emerging body of research examining the elements that drive giving behavior. Most of the work in this area has focused on how individual nonprofits can raise more money (regardless of impact) but we hope to use this research to help guide donors to decisions based on nonprofit effectiveness.

In the area of donor education, The Philanthropy Workshop West (TPWW) continues to provide high caliber classroom training for wealthy donors.

Plans for 2009

A 2009 priority will be to use the McKinsey white paper to attract new allies to strengthen the nonprofit information marketplace. We hypothesize that the creation of a stronger system will require participation in the following ways:

- Banks and financial advisors should proactively provide performance data to their clients.
- Search engines should automatically collate information about nonprofits and present it as part of search results.
- Intermediary organizations working to improve the marketplace should systematically share their data with each other.
- Foundations should, where feasible, systematically share what they know about nonprofits, individual interventions, and social issues.
- Nonprofits should provide much deeper information about their goals, strategies, and evaluation systems.

We have already begun outreach to these constituencies and will devote even more time doing so in 2009.

In late December 2008, the Foundation hosted executives from most of the country's major donor education and donor engagement organizations. The leaders of this cottage industry are eager to increase their scale and impact; we hope that these discussions will lead to a shared vision, common evaluation systems, and mechanisms for donor educators to learn from each other. Currently, donors are largely unwilling to pay the full costs of education programs.

The Philanthropy Program encourages research about strategic philanthropy and tries to facilitate the dissemination of knowledge that already exists. Unfortunately, many nonprofit practitioners have no consistent way to learn from new research and innovation. Current research by and about nonprofits is not aggregated in any central location and so can be difficult to locate and use. A major 2008 investment in IssueLab by Open Educational Resources and Philanthropy has provided a platform to gather and disseminate this knowledge. In 2009, we will work with key grantees and partners like Bridgespan, FSG Social Impact Advisors, and the Hauser Center for Nonprofits at Harvard to integrate their existing knowledge base with public platforms like IssueLab. We further hope to facilitate conversations to establish a basic “metadata standard” that will allow researchers to describe their work in ways that all parties involved can understand.

COMPONENT: Organizational Effectiveness

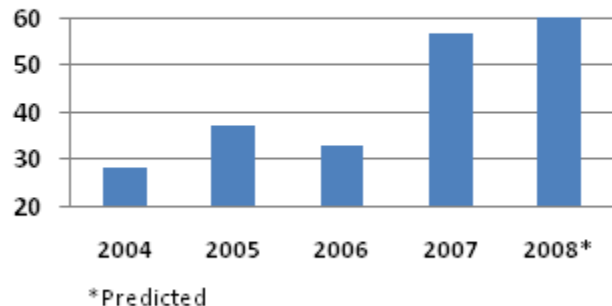
The Foundation’s Organizational Effectiveness (OE) Program is based on the premise that healthy, well managed organizations are more likely to achieve their goals. Since it began five years ago, the OE program has funded nearly 200 capacity-building projects that have enabled the Foundation’s grantees to strengthen their management, strategies, and organization-wide systems. The funds make it possible for grantees to hire outside experts to assist in strategic planning, communications and fundraising strategy, evaluation systems design, leadership transition, and board development.

Progress in 2008

Demand for OE funds remains strong as program grows. Strategic planning projects dominate.

As the chart to the right shows, the number of OE grants made to Hewlett grantees each year has doubled since the program began five years ago. As in the past, program staff identified more compelling grantee capacity-building projects than the available OE resources could support. Strategic planning projects continue to represent the largest percentage of all funded OE projects, followed by evaluation systems design and fundraising projects.

The number of Organizational Effectiveness grants have doubled since the Program was created in 2004



Representative grants awarded in 2008 are being used for these projects:

- A \$30,000 grant to the International Policy Council on Agriculture, Food and Trade is enabling the organization’s leadership to reassess its organizational and management structures.

- A \$32,000 grant to the Transportation and Land Use Coalition is helping this Environment Program grantee develop a five-year strategic plan to guide its budgetary and personnel growth.
- A \$32,000 grant to the Reproductive Health Technologies Project is enabling this Population Program grantee to develop a leadership succession plan.

An Organizational Effectiveness Grant in Action

As executive director of San Francisco's Intersection for the Arts, Deborah Cullinan had shepherded the organization through countless successful arts productions, but found herself stymied when it came to planning the organization's future. With the resources of her midsized San Francisco-based arts organization going to the next production, Cullinan never seemed to have the time or resources to plan for the long term.

That's where a Hewlett Organizational Effectiveness grant came in. A \$60,000 OE grant enabled Cullinan to hire consulting experts, including Marcy Cady, a notable nonprofit arts organization consultant who led Intersection's staff through a five-month strategic planning effort, and the Nonprofit Finance Fund, which helped Cullinan's team analyze the financial ramifications of purchasing and renovating the organization's building. As a result, Cullinan was able to respond effectively to the time-sensitive building purchase opportunity while also plotting a course for the organization's future. When asked what impact this grant had on her and her organization, Cullinan responded, "After years of struggling alone through these questions, I now have smart friends who are helping me think through these issues."

Plans for 2009

We plan to focus on better understanding and measuring what specific impact OE grants are having on our grantees' ability to achieve their goals. Our hypothesis is that increasing the organizational health of grantees provides a number of positive elements:

- It increases the Foundation's return on investment in grantees; it can minimize organizational risk and allow us to make longer-term investments in grantees.
- It can help nonprofits clarify and measure outcomes, thereby allowing grantees and Hewlett program staff to track grantees' progress toward our shared goals.
- It strengthens grantees' self-sufficiency, which is necessary for their survival.

How might we test these hypotheses? What appropriate metrics should we use to track progress given the diversity of capacity-building projects funded through the program? The planned evaluation should help shed some light on these and other unresolved questions.

Are we supporting the most effective capacity-building models?

OE grants currently comprise relatively small capacity-building grants (\$15–60K) that enable grantees to bring in outside consultants to undertake well-defined projects. The typical consultant who serves our grantees is a solo practitioner who works independently or is a small consulting

shop. We plan to explore whether this model is too narrow. We might create more impact by funding more comprehensive projects—integrated strategic planning, communications and fund development activities for grantees, for instance.

Strategic communications training: Popular with grantees, but what's the long-term impact?

Led by our Communications team, the OE program supported two 2008 Hewlett Communication Academy workshops organized by Communications Leadership Institute (CLI). Seventy-five grantee staff members participated. The three-day workshops—one of which was structured for executives and the other for Communications staff teams—were designed to improve our grantees' ability to use communications techniques to increase their organization's impact. Pre- and post-training surveys suggest that participants found the training and tools highly useful and relevant to their work—particularly the sessions devoted to strategic communications planning and goal setting.

While these workshops prove remarkably popular with our grantees, questions remain as to how grantees are applying their new knowledge and skills over the long term when they return to their organizations. To find some answers, the staff plan to work with the new CLI leadership team to explore ways of gathering longitudinal data to better measure the lasting impact on participants and their organizations.

COMPONENT: Hewlett Foundation Effectiveness

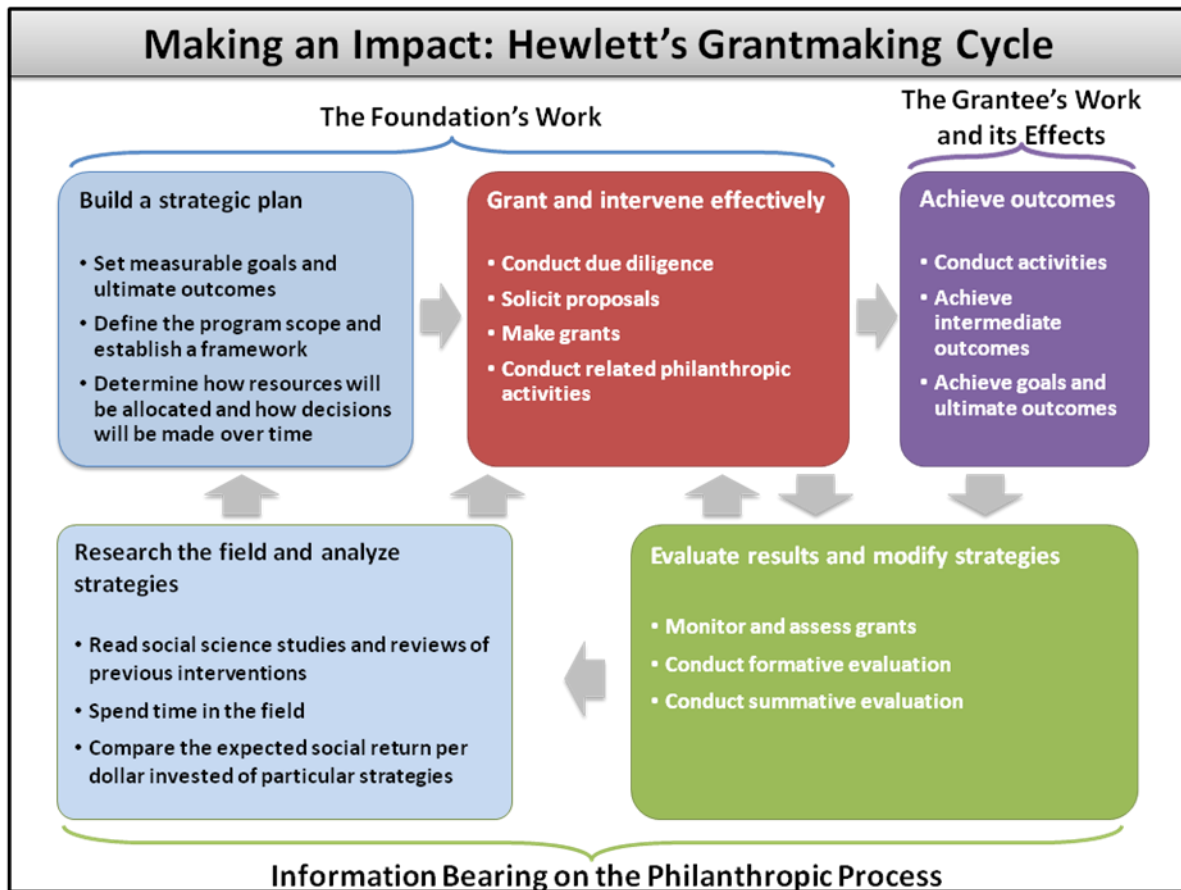
In addition to grantmaking to strengthen the practice of philanthropy and build the organizational capacity of the Foundation's grantees, the Philanthropy Program supports initiatives to help improve the overall effectiveness of the Foundation's grantmaking and other philanthropic activities. Our strategy is to learn about good grantmaking and spread those practices across the Foundation. Philanthropy Program staff work with programs and administrative departments on initiatives that strengthen planning, evaluation, and strategic grantmaking systems. We also work with the President and Vice President to facilitate regular staff meetings that promote cross-program learning and collaboration and build the staff's skills in the art of strategic grantmaking.

Strengthening Staff's Grantmaking Skills Through Peer Learning

During meetings aimed at strengthening staff's grantmaking skills and cross-program learning, discussion topics in 2008 included the following:

- Improving the Foundation's feedback systems through effective use of grantee reports.
- Hewlett case studies in assessing programs' progress toward target outcomes.
- Using logic models as a communications tool.
- Evaluating advocacy work.

Figure 1: Grantmaking cycle.



Progress in 2008

The Program retained FSG Social Impact Advisors to provide senior management with an independent assessment of the state of evaluation activities at the Foundation. FSG concluded that, although the Foundation's diverse program strategies were thoughtfully designed, we are, like the majority of our peers, underinvested in evaluation systems. FSG's findings pointed to a number of areas where we could strengthen feedback systems.

To respond to these findings and address other grantmaking procedures, the Program put together a working group made up of Foundation staff whose aim was improving the information we need to achieve program goals without increasing the burdens on staff and grantees. One guiding principle is that staff should request and analyze only grantee information that informs planning, grantmaking, and evaluation. As a result, we are now in the process of developing and piloting streamlined and more targeted grantee proposal and reporting requirements. The project is described more fully below in Plans for 2009.

The working group developed a theoretical framework for the Foundation's grantmaking life cycle. The full grantmaking process involves steps that flow from initial goal setting to grant selection to incorporating lessons learned, and then back to the beginning to further improve

subsequent planning and grantmaking. This lays the groundwork for refinement of program-specific and Foundation-wide planning and evaluation systems and tools. **Figure 1** represents a simplified version of the grantmaking cycle.

Also this year, staff in programs across the foundation raised the bar on specifying and communicating measurable outcomes of their work (as opposed to focusing solely on near-term activities and outputs). This important progress represents an essential step toward defining the yardsticks for measuring the success of the Foundation's work. Defining outcomes lays the groundwork for staff to select grantees more effectively, better assess progress against program goals, and make midcourse corrections to grantmaking strategies. It will also enable us to hold ourselves increasingly accountable for the impact of our grantmaking work.

Plans for 2009

Formalizing Outcome-Driven Grantmaking at the Foundation

Outcome-driven grantmaking generates the best possible decisions in allocating program resources, thereby ensuring that the Foundation's philanthropic dollars make the largest possible impact. It encourages clarity about goals and a rigorous approach to assessing impact.

Hewlett grantees spend a substantially greater number of hours [than the average foundation] on processes associated with developing a grant proposal.

– 2006 Grantee Perception Report

The Foundation's institution-wide exploration of this approach was jump-started by the Global Development Program's strategic planning efforts last year. In 2008, the Population Program, in collaboration with Redstone Strategy Group, formally documented its use of outcome-driven grantmaking, illuminating the benefits of the process and identifying lessons and practical challenges to be overcome. The Environment Program's West component will help us learn more in 2009.

Based on what we are learning, we hope to develop a set of tools and procedures to put outcome-driven grantmaking into operation across the Foundation. This will require, among other things, more formative evaluations of outcomes and impact to help staff determine whether their work is on track to achieve intermediate outcomes at the expected cost.

Project Streamline

Building on work that began last year, we will help the other programs implement streamlined proposal and reporting requirements to ease the paperwork burden on grantees and staff alike. According to the 2006 Grantee Perception Report, although grantees rated Hewlett's selection process as helpful in strengthening their organizations, the largest proportion of grantee suggestions for Foundation improvement concerned the grantee selection process. Grantees described Hewlett's application as "fairly complicated" and not always fully applicable to their organizations. Upcoming work in this area will explore ways to build more flexibility into Hewlett's proposal guidelines, further streamline administrative work for renewal grants, decrease the overall complexity of Hewlett's various proposal formats, and share lessons learned

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from our experience with peer foundations. Success will be measured by improvements in Grantee Perception Report trend data, including how much time grantees spend on Hewlett grant administrative activities per grant dollar received.