

# Update on the Hewlett Foundation's Approach to Philanthropy: The Importance of Strategy

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This is a progress report on the Hewlett Foundation's continuing efforts to improve the way we do philanthropy.<sup>1</sup> Its purpose is to make the Foundation's processes more transparent to applicants, grantees, and others who may be interested in our work.

The concepts and practices that underlie foundation grant-making are not fundamentally different from those that inform the work of our grantees. Because readers are likely to be more familiar with the operations of grantee organizations than with their funders, I will begin by focusing on the former—the organizations that do the lion's share of the work of the nonprofit sector. There is another reason for beginning with them: Our success as a funder depends heavily on the success of the organizations we fund, and this requires that we understand how they design and implement their own strategies.

Much of this essay is about strategy. A strategy is never an end in itself, but only a tool to aid an organization in achieving its mission. Underlying that mission is a passion to make the world a better place. A strategy contains the nitty-gritty details to accomplish the mission. Designing, implementing, and monitoring a strategy to improve society or the environment is like planning and embarking on a perilous quest for an elusive goal. It involves lots of slogging, with periods of tedium as well as excitement; moments of fear as well as the satisfaction of being on course; opportunities for unexpected discoveries, both good and bad—and the possibility that you might not get there at all. It is the passion to achieve the mission that provides sustenance in periods of frustration and difficulty. This essay starts from the premise of that passion, and focuses on the relatively unromantic task of designing a strategic plan to achieve the mission that inspires it.

## *The Strategic Infrastructure of a Nonprofit Organization*

The strategic infrastructure of a nonprofit organization consists of:

- An articulation of its *mission*.
- Well-defined *goals* or *outcomes*.
- A *theory of change* or *causal model* outlining each step necessary to achieve those goals.
- A *logic model* or *strategic plan* showing how the organization will

implement the theory of change.

- A description of how the organization will *track progress* as it implements the logic model and how it will *assess success* in achieving its goals.
- A *business plan* showing how the organization will gain and marshal its resources to implement the logic model.

*Mission.* A mission statement is an evocative encapsulation of the organization’s goals—for example, “improving the well-being and life opportunities of teenage girls.” It provides a benchmark for assessing proposed initiatives and for ensuring that changes in the organization’s goals are conscious rather than the result of drift.

*Goals or outcomes.* The test of a well-defined goal is that one can describe it with sufficient clarity so that others, including observers from outside the organization, would be able to assess the extent to which the organization had achieved the goal.

While “improving the well-being and life opportunities of teenage girls” is a fine mission statement, it does not meet the criterion for a well-defined goal: It is too vague for anyone, including the organization’s CEO and board, to know whether and to what extent the goal was achieved. Examples of well-defined goals in pursuit of the organization’s mission might be “reducing unplanned pregnancies” or “reducing sexually transmitted infections” within the population it serves. The goal would be even better defined if the organization specified targets; but reduction suffices, especially if the organization has some baselines from which it can measure change. A goal is often a positive restatement of a particular *problem* the organization seeks to address (for example, the problem of unplanned pregnancies).

*Theory of change or causal model.*<sup>2</sup> A theory of change is a comprehensive description of the theory that underlies all or part of an organization’s work. For a teen pregnancy prevention program, the essence of the theory of change might be:

- Providing adolescents—boys as well as girls—with comprehensive, medically accurate sexual and reproductive health (SRH) information and services increases their ability to make informed decisions. This leads to the delayed onset of sexual activity and increased use of contraception, which in turn lead to a reduction

in unplanned pregnancies and sexually transmitted infections (STIs).

- Increasing adolescents' decisionmaking and communication skills and their self-esteem and confidence leads to their having a more positive view of themselves and their futures, to the ability to negotiate sexual relations, and to improved school performance and retention.

As a goal implicitly describes the problem the organization seeks to address, a theory of change or causal model contains an implicit analysis of the causes of, or at least possible solutions to, the problem. In this case, for example, the theory of change assumes that unplanned teen pregnancies are at least partly the result of inadequate information and lack of self-esteem.

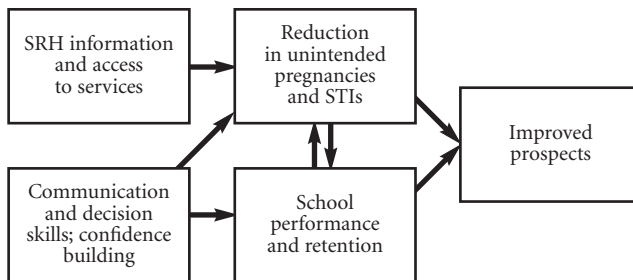


Figure 1. Theory of Change Underlying the Teen Pregnancy Prevention Program

At the very least, the theory of change should be empirically plausible. At best, it should have been previously evaluated by social scientists and shown to be robust.

*Logic model or strategic plan.* A logic model describes the program's goals, or intended outcomes, and the steps necessary to achieve them under the theory of change. It consists of inputs, activities, outputs, and outcomes.

The organization's *inputs* are the funds, human resources, and knowledge necessary to engage in the *activities* or to produce the *outputs* that lead to the intended goals or *outcomes*. Planning a strategy necessarily begins with outcomes and works backward to the inputs, which can only be ascertained after the rest of the logic model has been worked out.

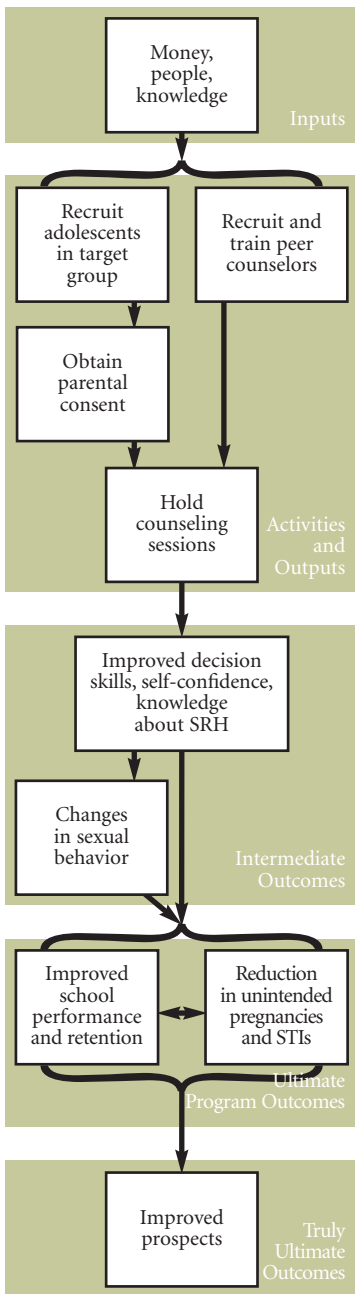


Figure 2. Logic Model for Peer Counseling

The distinction between activities and outputs is unimportant. Activities are ... well ... activities; outputs are more tangible deliverables. In the teen pregnancy example, the organization’s activities and outputs include recruiting students and peer counselors, holding counseling sessions and classes, and so forth. While activities and outputs are largely within the organization’s control, *outcomes* often are not. Adolescents’ becoming knowledgeable about sexual reproductive health is an *intermediate outcome*, while avoiding unplanned pregnancies is an *ultimate outcome*, and having better life opportunities is an even more ultimate outcome (not a technical term).

People sometimes use *strategic plan* as a synonym for the entire logic model, but the term is also often used just to refer to the activities-and-outputs portion—that is, to what the organization plans to *do* to reach the desired outcomes.<sup>3</sup>

An organization’s logic model or strategic plan is not static, but is subject to periodic review and modification when necessary to meet changing conditions.<sup>4</sup> (Alerting the organization to the need for modification is one of the functions of tracking, discussed immediately below.) It is worth emphasizing, however, that the review and modification of a plan presuppose that the organization already has a plan in place.

*Tracking activities, outputs, and outcomes under the logic model.* An organization tracks its progress and outcomes in order to obtain the feedback necessary to know whether it is on course, and to make corrections when it is not. In our example, potential problems may range from the individual (whether a counselor or youth has missed an appointment) to the wholesale (whether there is a greater demand for sexual reproductive health services than the current staff can meet). Having drawn up a strategic plan, it is usually easy to identify important indicators of progress to be tracked—for example, the number of counseling appointments kept and missed, and the quality of the sessions.

I use the term *tracking* rather than *evaluation* to make the point that the collection of data indicating progress with

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respect to activities and outputs does not require social science studies by outside experts. Rather, it calls for the organization's own personnel to obtain systematic feedback from internal systems. Although designing and implementing those systems can be costly,<sup>5</sup> tracking progress is essential to managing any effective organization—whether a business, government agency, or nonprofit.

The items tracked may have both quantitative and qualitative indicators, depending on the feedback necessary to keep the program on course and on the data that can reasonably be gathered. It is always worth striving to develop quantitative indicators based on objective data, because they tend to be clear and comparable. But this is not always possible. For example, the success of the teen pregnancy prevention program depends not merely on whether the counselor and youth meet at the appointed time, but on the sessions' success in imparting substantive knowledge or decisionmaking skills. By the same token, a performing arts organization must be concerned with the quality of its productions as well as the size of its audience. And a comprehensive community initiative may have both the objectively evaluable goal of reducing crime rates and the goals of strengthening its residents' subjective sense of trust, community, and well-being.

Much of the qualitative data needed to track the teen pregnancy program can be gained through interviews, tests, and questionnaires. The quality of performing arts presentations is assessable—and assessed—by critics and, in the case of grantees, by their funders' program staff. And community members' sense of well-being can be ascertained by surveys.

Often data of these sorts, though essentially subjective, can be put in quantitative form—just as essay exams are graded. As in the case of intrinsically quantitative data, this lends itself to comparisons—across time, across programs, and across participants. Whether or not the relevant data are ultimately quantifiable, however, tracking progress and success must respond to the program's goals, not vice versa. A system that ignored relevant indicators and goals would not only be worthless, but harmful. (One need only look at the distorting effects of “teaching to the test” on education in American schools today.) In any event, indicators of progress and the achievement of outcomes should be clear enough to be assessable by someone outside the organization.

As one moves from the organization's own activities and outputs to *outcomes*, data collection often becomes more difficult. Consider the intermediate and ultimate outcomes outlined in Figure 2 for the teen pregnancy prevention program. Information about what the participants learned and, perhaps, how this has affected their sexual behavior might be gained from questionnaires—though each set of data has its own difficulties of collection and reliability. Information about school performance requires data from the school district, which may be difficult to obtain for legal or bureaucratic reasons. Tracking *ultimate outcomes*, such as changes in the rates of unplanned pregnancies or sexually transmitted infections, may require the gathering and analysis of data that lie beyond an organization's resources.

*Business plan.* Having identified a logic model consistent with the theory of change, the organization must ensure that it has the requisite inputs—the human and financial resources to carry out the proposed work. A business plan includes a budget with projected expenses and revenues; it not only describes how the organization's current resources will be mobilized, but also includes fundraising plans to gain any additional resources necessary for the program's operations.

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The articulation of missions and outcomes and the development of theories of change, logic models, and indicators of progress do not occur in a strictly serial sequence, but almost always involve an iterative process. This strikes me as both inevitable and desirable. For example, exploring a theory of change may lead to a better understanding—and even modification—of one's goals; setting out the steps to implement a theory of change may expose weak or incomplete aspects of the theory; and so on.

The teen pregnancy example focuses on a single program of an organization that may have various goals that call for different strategies. For example, our hypothetical organization may have other initiatives intended to improve the well-being of adolescents, such as service-learning and leadership development. As the preceding discussion suggests, each of these should have well-defined goals, with an accompanying theory of change, logic model, indicators of progress, and the like.<sup>6</sup>

All of this may seem like a daunting task for many nonprofit organizations. Nonetheless, I doubt that any aspect of the planning process—from articulating clear goals and a theory of change through developing a logic model and business plan—can reasonably be abbreviated. After all, these are the plans that will guide the organization's core activities. Realistically, though, an organization may have to make compromises with respect to tracking, and focus its efforts on getting feedback on the processes most critical to its success. Also, as the above example indicates, once one moves beyond the organization's own activities and outputs to outcomes, tracking may become vastly more difficult. Yet the organization needs *some* indication of whether it is actually achieving the outcomes it seeks. I will return to this in the discussion of evaluation.

#### *The Foundation's Own Strategic Infrastructure*

A foundation's strategic plan starts from its mission and from specific goals that are initially determined by its founder and that may evolve over time through its trustees' decisions. The goals in effect at any time provide the focal point for all of the foundation's philanthropic activities. Like any other organization, once having established a goal, the foundation adopts a theory of change that will plausibly attain the goal, develops a logic model for implementing it, and so on. The main difference in this respect between a foundation and the organizations it supports is that the foundation achieves its goals primarily by making grants.

*The programs' strategic plans and grant guidelines.* Each of the Hewlett Foundation's programs has a strategic plan that translates its general objectives into quite specific ones, with accompanying logic models and indicators of progress and success. In developing these plans, the program directors consulted widely with the leaders of nonprofit organizations and experts in the field. We then articulated goals that we believe are important and ambitious, and that we have a reasonable chance of attaining. Where possible, we have developed quantitative indicators of progress. The Foundation's Web site contains summaries of the strategic plans as well as the grant guidelines for each program.

*Foundation-wide objectives.* In addition to particular programmatic goals, the Foundation's work is informed by several pervasive principles and objectives:

- Respecting the expertise and autonomy of the organizations we fund, and ensuring their well-being and sustainability;
- Building sufficient flexibility into our grantmaking to remain open to new ideas from the field—especially ideas about how to implement shared objectives—even as we pursue carefully thought-out strategic plans;
- Developing and disseminating knowledge of value to others in the fields in which we work; and
- Improving the practices of philanthropy and nonprofit capital markets.

The central strategy for achieving the first two objectives is the Foundation's openness to making multiyear renewable grants for general operating support.<sup>7</sup> This is an especially fruitful approach with respect to organizations whose values, goals, and strategies are well aligned with our own. Thus, almost half of the Hewlett Foundation's grant funds are in the form of general operating support to organizations or their self-defined programs and subsidiaries.<sup>8</sup>

We are working toward the third and fourth objectives by posting documents on the Foundation's Web site that share whatever knowledge we have gained and lessons we have learned in specific fields and in the practice of philanthropy more generally,<sup>9</sup> and also by grantmaking designed to strengthen the infrastructure of philanthropy and the nonprofit sector.<sup>10</sup>

*Grants as investments seeking social returns.* While the grants budget of the Hewlett Foundation is quite large for private philanthropy—approaching \$300 million in 2004—it pales by comparison to the social and environmental problems that the Foundation seeks to address, which range from air pollution in rapidly growing megacities, to the unmet demand for reproductive health services in developing countries, to inadequate education for many American children. Foundations as a whole account for only a small proportion of philanthropic giving and, of course, constitute an infinitesimal fraction of government expenditures and the business economy.

For a foundation to have any impact thus requires a deep understanding of the environments in which we operate. It requires identifying ways in which—whether through research, education, advocacy, or other means—we can set in motion forces that will have greater and longer-lasting impact than any of our particular grants. It also requires actively collaborating with other foundations and organizations that share our goals. Even then, the complexities of social forces beyond our control, and even beyond our ken, realistically entail that a foundation's reach will often exceed its grasp—that we will often not meet our aspirations.

Under these circumstances, one might be tempted to analogize philanthropy to a trip to Las Vegas. However, because the Hewlett Foundation considers risks in the light of potential social benefits, we tend to think of grants not as gambles, but as investments that seek social returns. The core insight of this metaphor is that the return on investment is a function of both the expected social impact and the likelihood of achieving it. If the Foundation did not take risks, it would never pursue strategies that seek large-scale changes in education, the environment, or economic development. Nor would it invest in new, relatively untested organizations that have great potential. Although no formulas can substitute for good judgment, an underlying model of investment, risk, and return provides the basis for making big bets where success is hardly assured but the social payoff is extraordinarily high.<sup>11</sup>

To be sure, we understand our work to be more in the nature of a *craft* than science or economics—a craft exercised with care and respect for the organizations, communities, and individuals we work with and affect. But program officers need to make choices, and the investment metaphor reflects the reality that a grant dollar spent on a poorly designed strategy or a low-performing organization is a lost opportunity to

## The Strategic Fertilization of Creativity

*Progress in the social and natural sciences as well as the arts depends on the creativity of a diverse array of practitioners, scholars, artists, and thinkers. The continual fertilization and development of their ideas cannot be accomplished solely through the targeted funding of specific projects, but requires giving creative individuals the space to pursue their own lights. To this end, the Hewlett Foundation supports universities and other institutions that foster and incubate creativity.*

*We know that there are inevitable efficiency losses in the short run. Not all thinkers will be industrious, not all of the industrious will be innovative, and not all innovative ideas will be worthwhile. But support for such open-ended creativity has paid off tremendously over time, making the United States one of the foremost centers of innovation in the world. This could not occur through a funder's micromanagement of the creative process, and we regard general operating support for these institutions as among the Hewlett Foundation's most strategic and valuable investments.*

support a more effective strategy or organization. Without attempting to quantify social returns, the investment metaphor embodies an *attitude* that presses the staff to use the Foundation's resources as effectively as possible. It is the fact that the social returns we seek, though not quantifiable, are potentially huge by any standards that gives the Foundation staff and Board members the courage to fail.

Making big bets is one thing; taking unnecessary risks is quite another. Therefore, before making a grant, we explicitly assess *strategic risks*, which involve the strength of the theory of change and logic model, including potential breaks in the causal chain, whether attributable to changes in external environment or weaknesses in the underlying theory; and *organizational risks*, which involve factors such as the grantee's management and governance capacity and fiscal health. We review these risks during the grant period and at its conclusion.

*Assessing progress, success, and failure.* Because our success depends largely on that of our grantees, assessing the Foundation's progress and success builds up from individual grants, to clusters of grants, to an entire program. And thus regular review of our grants is more than a means for monitoring grantee organizations: It provides the information necessary to evaluate our own work. There is no point in talking about taking risks if one cannot find out how they eventuated.

Based on reports from grantees as well as independent evaluations, the program staff regularly reports to the Board on progress against the Foundation's strategic plans and, where appropriate, proposes mid-course corrections. Especially because the Hewlett Foundation is prepared to take significant risks, failures are inevitable. Although we not only hope for the best but work with our grantees to ensure success, failures provide important opportunities to learn and improve our practices.

### *The Foundation's Processes for Selecting Grantee Organizations and Tracking Their Progress*

One reason for beginning this essay with an example from an operating nonprofit organization is that a foundation's due diligence process must start with understanding a grantee's goals and strategies. This is especially true when a foundation is considering a grant

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of general operating, or core, support. In that case, the foundation essentially adopts the organization's mission as its own, and thus assesses the organization's strategies much as its own CEO or board would. And this requires that all of the elements of the organization's plans be transparent.

To these ends, the Hewlett Foundation's application form asks a prospective grantee to describe, among other things:

- The particular outcomes the organization seeks to achieve,
- The activities it will conduct to achieve those outcomes,
- How the organization plans to measure progress toward its intended outcomes, using qualitative as well as quantitative indicators, and
- How it will know whether it is actually making a difference.

We ask a prospective grantee to provide this information in its own words and to attach a logic model with indicators of progress, which will also serve as the basis for the organization's reports to the Foundation.

Explaining yourself to others inevitably sharpens your understanding of your own work. Thus, in addition to yielding information essential to the Foundation's grantmaking decisions, the application process has helped some organizations improve their own performance. But some organizations have also found the concepts difficult and the application process unduly arduous.<sup>12</sup> Though we remain confident in the goals that motivate the process, we also know that considerable work remains to be done both to simplify it and to improve organizations' understanding of the underlying concepts. Among other things, we are supporting the development of publicly available, Web-based tools to help organizations apply these concepts to their own goals and strategies.<sup>13</sup>

Though an organization's strategic plan is the starting place for the Foundation's due diligence process, it is not the endpoint. We must assess the organization's capacity to carry out the plan, the quality of its leadership, and its overall vitality. No part of due diligence is formulaic. These aspects of the process call for special qualities of judgment and inevitably require face-to-face meetings. Due diligence is thus among the most complex and nuanced responsibilities of our program staff.

## Intuitions About Social Change Are Often Wrong.

*“Joan McCord, Who Evaluated Anticrime Efforts, Dies at 73,” by Douglas Martin, New York Times (March 1, 2004):*

*“Her best-known longitudinal study was her 1978 follow-up on a youth-mentoring program done 30 years earlier in Cambridge and Somerville, Mass. She found that boys at high risk who had been given mentors, health-care services and summer camp fared worse in later life than a similar group of boys who were given nothing special. The 250 boys who got special services were more likely to become criminals, have trouble in their jobs and marriages, and become alcoholics, according to court, hospital and other records noted in her study. A possible reason, Dr. McCord suggested, was that those boys had felt they were given the attention because something was wrong with them, making it a self-fulfilling prophecy. Her theory was that the boys who went to summer camp modeled themselves after camp troublemakers. The counter-intuitive result contradicted the statements of two-thirds of the participants that the program had helped them by giving them better values and keeping them off the streets.”*

## *The Role of Evaluation*

Evaluation is an extension of tracking outputs and outcomes under a logic model. Its role is to determine whether implementation of a strategy actually made a difference. The issue is not whether a grantee did what it said it would do, or even whether its indicators of progress were favorable. Rather, the role of evaluation is to determine whether the desired outcomes occurred and whether they resulted from the intervention.<sup>14</sup>

Evaluation typically requires using social science methods to assess whether a particular intervention actually caused its putative results or, more broadly, to assess the soundness of the theory of change underlying a strategy. For example, the initial results from a large grant supporting school reform in San Diego show improvements in students' reading skills. To confirm the success of the intervention requires more, however. Thus, we have commissioned studies that require comparing outcomes among the district's schools and with other school districts. Still other research will be required to determine whether the approach has so-called “external validity”—that is, whether it will work elsewhere.

Evaluations of these sorts call for resources beyond the capacity of most nonprofit organizations. Indeed, even a well-endowed foundation could not afford to undertake comprehensive evaluations of all of its work. Yet there is a dilemma here. Although intuitions are often the only realistic starting point for programs designed to bring about social change, many intuitively obvious interventions have turned out to be useless—sometimes even counterproductive. And unless it is implementing a strategy that has been well tested in similar contexts, the organization and its funders cannot know whether the program is making a difference or just spinning its wheels. Thus, we are constantly on the lookout for evidence bearing on the

validity of the theories underlying our work, and, as in San Diego, we selectively support full-scale evaluations of strategies that have the potential for replication and significant impact.

### *Conclusion*

The internal processes described in this essay are works in progress. The Hewlett Foundation takes seriously the idea of being a learning organization, and we hope that our work will improve over time in response to experience and feedback from grantees and other foundations.

Although the point may be obvious, it is worth stating that strategy is not a substitute for passion, but its servant. Passion is essential in every aspect of our work. It is what makes those committed to social change go to work early and come home late. But without the capacity to move beyond passion to effective planning and execution, the sector would be left largely with well-meaning efforts that confuse good intentions with effects.

Finally, I should note that this essay itself embodies an implicit theory of change. It assumes that non-profit organizations, including funders, would be more effective in achieving their aims if they developed and implemented strategic plans based on robust theories of change, and if they used indicators of progress under those plans as the basis for managing their day-to-day activities. As with any other theory of change, these assumptions must ultimately meet the tests of evaluation. Evaluation may be a bit tricky here, since it requires comparing the outcomes of organizations that are and are not outcome-oriented, and it may be difficult to get outcome data for those that are not. But difficult does not mean impossible, and we are considering how we might go about this.

*“In other studies, she found that some youths counseled by court-appointed volunteers fared worse than those who received no counseling. Her statistical analysis of a program in Australia that provided recreation for troubled adolescents found bad effects. And participants in the Scared Straight program, which takes young offenders from many locales to visit prisons, were arrested more often than a control group, she found. She said that D.A.R.E., the popular nationwide ‘just say no’ drug education program in which law enforcement officers spend time in schools talking about drugs, alcohol and violence, may actually have contributed to drug use, according to her analysis of statistics from the program.”<sup>15</sup>*

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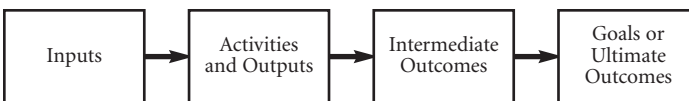
In the meantime, we proceed in the belief that this theory of change is not entirely speculative. There is ample evidence that developing and implementing clear and empirically based strategies to achieve well-defined outcomes has led to success in both the private and public sectors. And though there doubtless are instances in which organizations have achieved good outcomes with little or no strategic planning, it is hard to imagine a plausible theory under which the absence of planning would generally conduce to success.

PAUL BREST  
JUNE 2004

### Appendix: Glossary

*Theory of change or causal model.* The explicit or implicit theories about how and why the program will work.<sup>16</sup> A theory of change is a statement that proposes a causal relationship between a program's design and a set of desired outcomes. As shown in Figure 1, a theory of change can be depicted as a flowchart, often with two-way flows and recursion.

*Logic model.* A description, in the form of a flowchart, of how the organization will implement the theory of change that takes the general form:



- *Inputs* are the organization's human and financial resources.
- *Activities* and *outputs* are what the organization does and delivers.
- *Intermediate outcomes* are results of the organization's activities and outputs—typically not entirely within its control—that must be achieved on the route to its ultimate outcomes.
- *Goals* or *ultimate outcomes* are the end results the organization plans to achieve from the program in question.

*Strategic plan.* The activities-and-outputs portion of the logic model; what the organization will actually do.

*Business plan.* A detailed description of how the organization will acquire and marshal the resources to implement the strategic plan.

*Tracking progress.* Tracking progress requires:

- Identifying significant indicators of the organization's activities, outputs, and intermediate outcomes that are necessary to achieve its goals or ultimate outcomes. Indicators can be qualitative as well as quantitative, but progress should in any case be assessable by someone outside the organization.
- Developing and implementing a system for tracking and providing regular feedback to cognizant staff.

*Evaluation.* Using social science methods to assess whether a particular intervention actually had an effect or, more broadly, to assess the soundness of the theory of change underlying a strategy for social change.

### Notes

<sup>1</sup> It updates the 2001 President's Statement describing the Hewlett Foundation's approach to philanthropy, <http://www.hewlett.org/AboutUs/AnnualReports/annualReport2001.htm>.

<sup>2</sup> My personal preference is for the simpler and (to my mind) more evocative term "causal model." "Theory of change" is widely used in the nonprofit sector, however, and there is value in using a common vocabulary. The theory of change depicted in Figure 1 is considerably simplified for purposes of illustration; so too is the logic model in Figure 2. Both are also depicted as *linear*, when in fact many models of social change are complexly *recursive*.

<sup>3</sup> Each activity described generally in the logic model or strategic plan encompasses a number of more specific steps. Consider, for example, the activities subsumed within "recruit adolescents in the target group," starting with identifying potential participants and persuading them to participate, which itself might involve distributing leaflets, recruiting their teachers or peers, and so on. Even when the activities have been broken into their composite parts, not every detail can be anticipated, and the plan will be subject to additions and mid-course corrections. But the more that can be anticipated—especially in the design of systems—the more likely the program will avoid bumps in the road or serious mishaps.

<sup>4</sup> Cf. Shona L. Brown and Kathleen M. Eisenhardt, *Competing on the Edge: Strategy as Structured Chaos* (Boston, Mass.: Harvard Business School Press, 1998).

<sup>5</sup> Indeed, funders should be ready to support their grantees' development of such systems. For example, the Hewlett Foundation made a grant to REDE, a reganter and technical assistance provider for workforce development, to enable the organizations it supports to track the services delivered to individuals and the impact of those services on their lives over time.

<sup>6</sup> The teen pregnancy program involves the delivery of services. While the particular theories of change and strategies will differ for, say, organizations engaging in community organizing or advocating public policy reform, their effectiveness depends on similar planning processes.

<sup>7</sup> See the Foundation's 2002 President's Report (<http://www.hewlett.org/AboutUs/AnnualReports/2002AnnReport.htm>); Paul Brest, "Smart Money: Strategic General Operating Support," *Stanford Social Innovation Review* (Winter 2003). Another strategy is to set aside funds for special projects or opportunity grants, which can be used to support start-up ventures as well as long-standing organizations.

<sup>8</sup> In making a general operating support grant to an organization that has a number of different programs, we are explicit that our funds may be

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allocated within the organization as its CEO and board see fit. Nonetheless, we may ask the organization to focus its progress reports on aspects of its work that are most closely linked to the Foundation's own strategic plan.

<sup>9</sup> See, e.g., <http://www.hewlett.org/Archives/>, which contains the results of research commissioned on children and youth issues.

<sup>10</sup> For example, a grant to the Greater Kansas City Community Foundation supports the development of a Web-based tool that makes available to donors critical information about the organizational and programmatic performance of selected nonprofit organizations.

<sup>11</sup> The subject of risk raises three ancillary issues. First, it is often said that foundations play a special role in supporting innovative and hence risky social enterprises—and, indeed, much of the Hewlett Foundation's grants portfolio fits this description. However, there is also a role for supporting the relatively non-risky work of stable organizations. So, our Performing Arts Program supports the San Francisco Symphony as well as “edgy” music groups. Second, we have considered whether our grants should constitute a “diversified portfolio” in terms of risk. The rationales for a diversified portfolio of financial investments—achieving a balance of stability and growth and the advantages of heterogeneity—do not apply directly to grants. Nonetheless, there may be social as well as psychological value in not having all of one's grants be high risk. Third, in view of the discussion of risk and return within programs, one might think of comparing a foundation like Hewlett that has multiple grantmaking objectives with a conglomerate like General Electric, whose central management acts as an internal bank, investing funds in the company's various divisions—e.g., appliances, financial services, aircraft engines—with the goal of netting the greatest financial return on its capital. Even if our Board wished to follow a model like General Electric's, however, it would have no plausible methodology for comparing the social returns from radically different programs. By contrast to financial returns, which are all reducible to a bottom line, social returns differ greatly from one area to another.

<sup>12</sup> See the Center for Effective Philanthropy's Grantee Perception Report (January 2004), <http://www.hewlett.org/AboutUs/Grantee+Perception+Report/>.

<sup>13</sup> In April 2004, the Board approved a grant for the joint development of Web-based tools by Innovation Network ([www.innonet.org](http://www.innonet.org)) and ActKnowledge ([www.actknowledge.org](http://www.actknowledge.org)).

<sup>14</sup> Even when the desired outcome occurs, one cannot always be sure that it resulted from the intervention. For example, after New York adopted a “broken windows” strategy for reducing crime, crime rates declined significantly—but they also declined throughout the nation, including cities that had done business as usual. See, e.g., Steven D. Levitt, “Understanding

Why Crime Fell in the 1990s: Four Factors that Explain the Decline and Six That Do Not,” *Journal of Economic Perspectives* (forthcoming). Conversely, it is possible for a good strategy to fail to achieve the desired outcome because of some unforeseeable circumstance that can be guarded against in the future.

<sup>15</sup> As a result of Dr. McCord’s and others’ evaluations of the D.A.R.E. program, the organization completely revised its curriculum. See <http://www.dare.com/home/Curriculum/Default66d2.asp?N=Curriculum&M=10&S=0>.

<sup>16</sup> Carol Weiss, “Nothing as Practical as Good Theory: Exploring Theory-Based Evaluation for Comprehensive Community Initiatives for Children and Families,” in James P. Connell, Anne C. Kubisch, Lisbeth B. Schorr, and Carol H. Weiss, eds., *New Approaches to Evaluating Community Initiatives*, vol. 1, *Concepts, Methods, and Contexts* (1995).