

Grants Can Create Dysfunction at Charities. Here's a Solution.

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The 21st century is well on its way to being known as the "century of philanthropy," and the philanthropic world is entering a period of profound change for donors, grant makers, and nonprofits — but it risks squandering this potential for change by spending hundreds of millions without making any impact.

Having a strong strategy is an essential ingredient of impact, but confusion or conflict about whose strategy should take priority — the philanthropist's or grantee organization — is itself a threat to making a difference.

More broadly, there is a deep but often obscured tension between the need for a foundation to have a strategy and the need for individual organizations to have a strategy — and that tension is usually resolved in the donor's favor through restricted grants or complicated grant agreements with excessive reporting requirements, or simply by the funded organization bending to the demands of the donor.

None of these are ideal solutions, and most of them edge toward, or fall into, a kind of hidden dysfunction. Consider the fate of Clasp, an international nonprofit with a stellar record of reducing the costs and climate impact of refrigerators, air conditioners, and much more. Clasp helps countries draft energy-efficiency standards for dozens of products, which avoids power-plant construction, lowers consumer bills, increases the reliability of the electrical grid, and cuts greenhouse gases. It has results — tens of billions of dollars saved and hundreds of millions of tons of carbon avoided. All good.

Clasp's rational strategy would be to pursue the most energy-consuming targets in the largest countries where its work is welcomed by the government. If Clasp were to maximize efforts to succeed against those variables, its program would achieve its potential.

But Clasp has had to react to many, often mixed, signals from foundations, each of which wants to fund work in a particular country or on a specific product or along a special timeline. The consequence is that the group has some 50 individual projects, each aimed at a particular goal, and less than ideal freedom to follow its own judgment about maximum impact and seize unanticipated opportunities.

Throw in differing proposal requirements, grant timing, overhead limitations, and the now-ubiquitous list of key performance indicators, and it is easy to see how many nonprofits could become managers of different interests rather than powerful drivers of a strategy. Clasp has managed to deliver serious progress despite this cacophony of demands because its CEO, Christine Egan, is steadfast, smart, and driven, but she sees important opportunities missed because of grant-maker restrictions.

So whose strategy should win in today's philanthropic world, the donor's or the nonprofit's?

While *Money Well Spent: A Strategic Plan for Smart Philanthropy*, the second edition of which came out in July, advocates strongly for strategic philanthropy, we recognize that it must be combined with deep

respect for grantees. To be sure, each donor has a rationale that drives his or her aims and grant requirements, and these are often carefully thought through — and some are brilliant. And, just as the nonprofit has a portfolio of projects to manage, a foundation with a strategy is trying to make grants that advance a specific goal. Both the foundation and the nonprofit are trying to assemble a strategy by linking parts from many sources. That's complicated.

The inevitable power imbalance between those who seek money and those who offer it always gets added to the brew. The truth is that foundations and wealthy donors generally call the shots, so that in building their strategy and the portfolio of grants that reflect it, they get to determine most aspects of a grant.

Another reason this approach is not ideal for either grant makers or nonprofits is that many organizations operate on slim margins, balancing many projects, with fairly little strategic flexibility. The challenge to the nonprofits is obvious, but the costs to the foundations are also severe, if more hidden.

Foundations that drive nonprofits toward their own select set of targets, methods, timelines, and measurements for evaluation risk forgoing the depth of knowledge and experience of the organizations they support — and for certain, we need to take advantage of that knowledge. Smart people need freedom of operation. That's Management 101 — and also HR 101 and Strategy 101.

So how can we fix this? How does one capture the drive and power of, say, the Gates Foundation working to eradicate entire diseases with a view across many countries and grantees, while at the same time taking advantage of nonprofits working directly with the people they hope to help, who have their own deep experience to offer? What kind of rebalancing can exploit the broad vision of a donor and the practical realities of a nonprofit?

Listen

The first step is for grant makers to develop a keen sense of hearing. They need to begin their exploration, their strategy setting, not with an *idée fixe* but with an open mind. They need to consult extensively with beneficiaries, practitioners, academics, policy leaders, nonprofit heads, and fellow foundations before settling on a strategy.

Good listening requires a lot of sorting — to connect ideas or note the outliers; to see which strategies are backed by data and which are riding on the wings of hope; to identify projects that are mature and those that are experiments on the early part of the learning curve. Listening should take place in the offices, labs, and places where grantees work, not primarily in foundations' offices — remember the power imbalance.

Questions are in order; hypotheses should be honestly tested. Read up on the research that's been done on the cause you support, check up on relevant academic research, and consult with several groups. Be explicit that these are not calls about a potential grant but part of an exploration. That should cut down on hype.

Synthesize

With the listening underway (it is never finished, after all), assemble what you have heard into a philanthropic strategy. Put up a hypothesis or two, and see whether the feedback supports it. Mark off

what you will not do as well as what you hope to do. You are making choices and setting strategy as required, and that requires saying no to many good ideas.

Get Feedback

When you have a draft strategy, write it down. Say what you intend to do and why. Describe the scale of your ambition and funding. Make clear what is excluded as well as what is included. Tell the world how you will solicit proposals and how you will make decisions. And then send it to the smartest 10 or 20 people you have encountered, with the word "draft," capitalized, in the header, and ask them what they think.

You will get support, caveats, nudges, and dissent. That's just fine — provided you listen to what you hear and adjust — or don't adjust but for good reasons.

When this is done, refine your strategy statement and put it up on your website, along with instructions for potential applicants.

Why This Approach Works

The first bonus of this approach will be respect from the people working on the mission you hope to advance — and that is gold. If you are serious about consulting, listening, and synthesizing, you will find friends among those you fund and those you do not — and respect is more important than money in most situations.

A second bonus is that the proposals you receive will be much more in line with your strategy. It is a far better day when you get to dig through four great proposals reflecting your strategy than two dozen with only peripheral connections — better for you, better for potential grantees.

The third bonus is that you will likely find a few groups whose own strategic judgment is very similar to yours, and that is a great day. Presuming you like the leadership of these groups, you are now equipped to make a large, multiyear, general-support grant. You have just met the ideal condition where your strategy and the grantee's strategy are (mostly) the same. Making a few of these grants markedly raises the odds that you will be successful and allows you then to spend time on tougher problems and unmet needs.

Results Matter

The approach here takes upfront time. It is based on the belief that donors must earn respect, not expect it simply because they are wealthy. Listening, synthesizing, and being explicit about choices are hard work. But they end up being a great gift because the effort refines the donor's strategy and that strategy generally carries with it both a good amount of knowledge from the field and a good amount of respect.

There is one final bonus: A few years hence, when you see the results from your grants, you can compare them to your hypothesis and see where that strategic idea is working and where it is not. Honest assessment of results is, after all, how we need to be judged, not by good intentions or generosity.

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