Organizational Effectiveness Program

MAY 2018

I. Introduction

Launched in 2004, the Hewlett Foundation's Organizational Effectiveness (OE) program helps the foundation's grantees build the internal capacity and resiliency needed to navigate challenges, growth, and other opportunities to sustain and thrive in our ever-changing world. The OE program provides relatively small grants of targeted support to grantees across all the foundation's core programs to build capacity in areas like strategic planning, leadership transition, board development and governance, and communications planning. Additionally, the OE team offers trainings, resources, and assistance to the foundation's program staff to enhance their ability to support grantees' capacity-building efforts.

Our OE program was originally modeled on a program created by the Packard Foundation in 1983. The Packard Foundation's theory was that "organizations are more effective when they are equipped with thoughtful strategy, strong leadership, and sound operations." That may seem sensible, yet at the time, grantmaking like the Packard Foundation's—explicitly focused on grantee capacity-building—was rare among large foundations. Today, a growing number of foundations recognize the importance of OE style and capacity-building support, though stand-alone programs like ours remain the exception.

Housed in the Effective Philanthropy Group (EPG), organizational effectiveness is one of EPG's five pillars that helps support best practices in philanthropy. The EPG team also provides foundation-wide support for these other four areas that we believe are integral to the practice of effective philanthropy: strategy, evaluation, organizational learning and progress tracking, and grantmaking to strengthen the field of philanthropy. As a hybrid team, the EPG team works both internally to provide guidance and consulting support to program staff, as well as externally to make grants for capacity-building and strengthening the field of philanthropy. We also share and exchange ideas and lessons with others in the field.

II. The Need

Organizational effectiveness grants were created to help address a perpetual (and formidable) challenge: The organizations we depend on to achieve the foundation's goals are often under-resourced and understaffed, and do not have the time or capacity to focus on building strong internal systems, developing plans for the future, or cultivating leadership and future talent.

In order to navigate the constant changes in the world and inevitable organizational challenges, nonprofits need strong leadership, effective operational systems, and robust, actionable plans to ensure long-term viability and success. The OE program aims to help grantees build their resiliency for this purpose. As supplemental grants given to current grantees, OE grants act as "booster shots" to enable nonprofits to focus on capacity building, which often gets neglected or deprioritized because of competing program priorities that tend to be viewed as more urgent and critical.

III. Our Strategy

Goal: The goal of the Organizational Effectiveness program is to help nonprofits become high-performing organizations that are healthy, sustainable, and successful in achieving their goals.

We believe that investing in the foundation's grantees to help build their core strengths will help maximize their impact and enhance their ability to be successful. As a result of this work, we expect to see healthier and more resilient nonprofits that are well-positioned to meet the needs of the people and causes they serve.

We currently pursue our goal through several ways:

1. We make OE grants to existing grantees of the foundation to help build their internal capacities in areas such as board and executive leadership, strategic planning, communications, and diversity, equity, and inclusion.

2. We provide training and resources to the foundation's program staff to help enhance their organizational effectiveness knowledge and skill set and increase their ability to offer more support for their grantees.

3. We share and exchange ideas and lessons with the philanthropy field and also learn from others, ensuring that our grantees benefit from the most innovative and promising practices in capacity building.

While the primary focus of the OE team historically has been OE grantmaking, our broader aim is to help our program staff to support their grantees' overall capacity-building efforts, whether funded by OE grants or through project or general operating support.

In order to help gauge organizational health, we commissioned an Organizational Assessment Tools Scan in 2017 to better understand the full spectrum of tools available to assess a nonprofit's health and capacity, including areas of strength and weakness. We found more than 90 comprehensive assessment tools, alongside scores of additional tools that measure specific areas of competency. Some tools are free, others charge a fee; some are self- administered, others are administered by specialists, and so on.
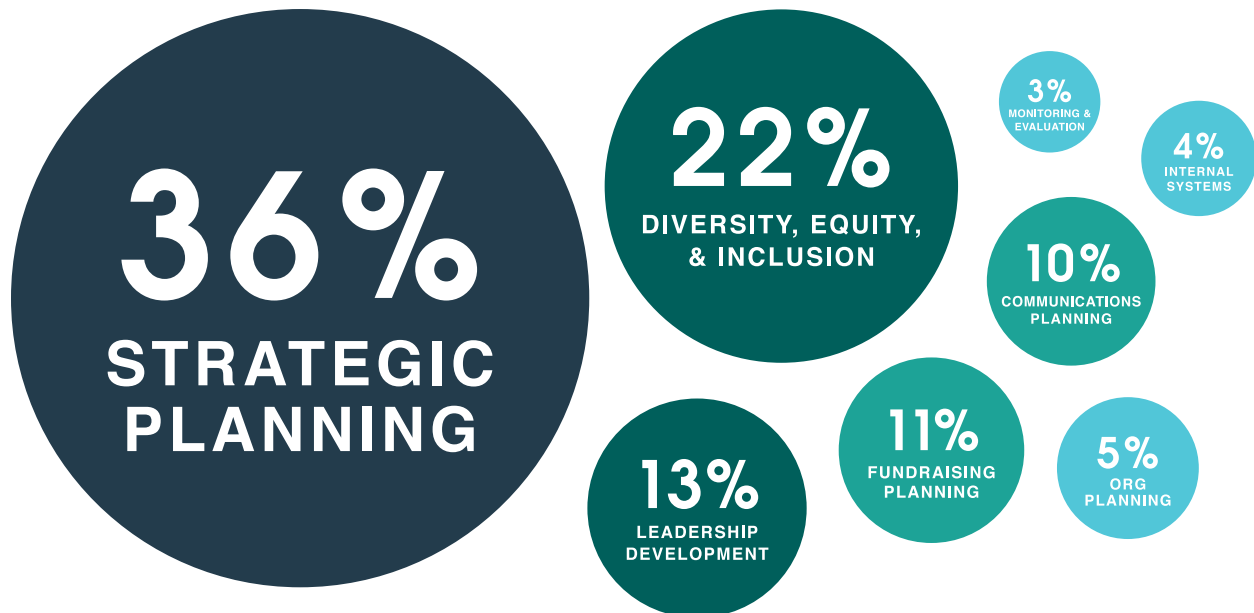
One of the findings from the study is that the process of going through an organizational assessment may be more important than the particular tool itself. Just engaging in an assessment process leads to conversations among leadership, board, and staff that can identify shared concerns, uncover areas for improvement not previously apparent, and shape new priorities. The findings also show that it is better practice to separate organizational assessment from decisions about making or renewing a grant, so as to facilitate more candid discussions among nonprofit leaders and funding partners. We plan to integrate these and other insights from the scan into supporting program staff and their grantmaking.

IV. How the OE Program Works

The OE program has grown from a budget of $500,000 when it launched in 2004 to $3.7 million in 2017. We funded 88 OE projects in 2017, ranging from $15,000 to $100,000 with an average grant size of $43,000. As in past years, strategic planning was the most frequent purpose, followed by leadership development, fundraising planning, and communications planning. Though funded separately through the Education Program's budget, grants that supported organizational capacity in the area of diversity, equity, and inclusion efforts added another 22 grants and $1.1 million.

WHAT ARE OE GRANTS USED FOR?

OE project types in 2017

36% STRATEGIC PLANNING

22% DIVERSITY, EQUITY, & INCLUSION

3% MONITORING & EVALUATION

4% INTERNAL SYSTEMS

10% COMMUNICATIONS PLANNING

13% LEADERSHIP DEVELOPMENT

11% FUNDRAISING PLANNING

5% ORG PLANNING

While the grants are relatively small and the entire OE budget is less than two percent of the overall foundation's grantmaking, OE grants are highly valued by both grantees and program officers. Grantees appreciate the foundation's commitment to their organizational health through these supplemental, high-leverage grants that allow them to dedicate resources to important capacity areas. In turn, they are able to prioritize and justify to their board and staff the importance of doing the internal organizational work. Additionally, we have found that opportunities to discuss organizational capacity lead to more candid conversations and stronger relationships between program officers and grantees.

Working with the other program directors, EPG allocates a share of OE funds to each program; the program directors then work with their respective teams to distribute the funds across their staff and strategies. Program officers use different methods to decide which organizations in their portfolios will receive OE grants. Sometimes a program officer will identify a potential capacity-building need and initiate a conversation with

the grantee about supplemental, targeted assistance. Other times, a grantee will take the initiative to request support for an area they have identified that needs strengthening. Regardless of who initiates the request, grantees ultimately determine what type of OE project they want to tackle; this is important, as evaluations show that organizational readiness is an important factor in the success of an OE project. Organizational readiness refers to a combination of factors, including the organization's recognition and desire to make change in a specific area, leadership and board buy-in, and staff capacity to manage and participate in the project. Program officers support grantees as they develop their proposals and implement any organizational improvement effort.

The OE team provides support to program staff to understand and respond to grantees' organizational needs. This includes helping program officers think through possible capacity-building projects for grantees to providing advice if the organization encounters challenges or obstacles along the way. Program staff are welcome to consult with the OE team on all capacity-building topics for their grantees, regardless if funded by an OE grant. For example, some program officers may give general operating support grants but want to advise their grantees on capacity-building efforts in general. The OE team also offers regular trainings and resources, periodically bringing in experts to provide training on capacity-building issues and creating opportunities for peer learning.

OE grants typically fund external consultants to help the nonprofit with its capacity-building work. While not required, consultants are strongly recommended as they provide expertise, project management and an outside perspective that can be valuable to a nonprofit, for example, as they develop a strategic plan or need leadership development training. As our evaluation shows, consultant fit is an important factor for the success of a project, and we encourage grantees to speak with multiple consultant candidates, as well as take into consideration their knowledge of the organization and sector, communication style, and "chemistry" with the organization before making a final selection. While the foundation does not recommend specific consultants, the OE team keeps a database of consultants that have been used by past OE grantees, and when requested, can provide a list of possible candidates for a grantee to interview.

It is important to note that OE grants are intended to help set the stage (such as developing a fundraising plan or hiring a CEO search firm), but not the implementation (enacting the fundraising plan or paying the CEO's salary). The expectation is for the grantee to integrate the capacity-building effort into their regular operating budget going forward.

V. How the OE Program is Doing

In 2014, we commissioned a formal evaluation of the OE program, looking to understand better the program's impact, strengths, weaknesses, and relevance. The evaluators (SPR Associates) analyzed grants over a five-year period, surveyed grantees and program officers, and drew on various secondary sources, including supplemental analyses from the foundation's Grantee Perception Reports.

The findings fall into four categories: (a) program design; (b) impact of OE grants; (c) significant factors affecting impact; and (d) administration processes and support.

> **(A)** *Program design.* The OE program is highly regarded inside and outside the foundation. Program staff and grantees alike said that its stand-alone design—with OE grants awarded in addition to and apart from programs' project or general operating support—provides unique value. Targeted funding for strategic planning or other capacity-building projects helps grantee leaders avoid the challenge of having to justify diverting resources from already scarce general operating funds. Equally important, the grants provide opportunities for program officers and grantees to talk openly and honestly about organizational challenges and needs

without the fear of jeopardizing program funding. Both parties say that collaborating closely on OE proposals helps strengthen their relationships by treating organizational health as a priority and encouraging mutual trust, respect, and understanding. Further attesting to the value of specialized support, the Center for Effective Philanthropy performed a supplemental analysis of the 2013 Grantee Perception Report and found that "providing OE grants AND general operating support may be more useful to improve relationships than either alone."

(B) *Impact of OE grants.* The evaluation showed that short-term, targeted support has positive and immediate effects on grantees' capacity. Most OE grant recipients met their objectives, producing solid strategic plans, fundraising campaigns, leadership transition plans, and so forth. A key assumption of the program has been that short-term, targeted OE support will have broader, long-term effects on grantees' work (e.g., a fundraising plan developed with an OE grant will lead to greater financial stability). This kind of causation, unfortunately, is hard to ascertain. A large percentage of both program staff and grantees said they believe OE grants strengthen organizations' long-term performance, but the evaluators could neither confirm nor disprove the hypothesis.

(C) *Significant factors affecting OE grant impact.* Three factors emerged in the evaluation as most important in influencing the success of OE grants: (i) grantee readiness, meaning chiefly a commitment by leadership, board, and staff to invest time and make the project a priority; (ii) finding a consultant to help who can build a strong rapport with the grantee while demonstrating flexibility, accessibility, and a broad and deep knowledge of the relevant field; and (iii) having strong support from a program officer who understands the grantee's needs and is supportive throughout the process. Surprisingly, several factors we thought would affect impact—including type of project, size or duration of the OE grant, and size of a grantee's staff or budget—bore no meaningful relationship to whether projects achieved their objectives.

(D) *Administrative processes and support.* The evaluation found that the OE program and its staff are generally well regarded; in particular, program officers highly value one-on-one assistance from the OE team in developing proposals. But the evaluation also highlighted ways in which the program is not as efficient or effective as it could and should be. For example, both program officers and grantees asked for more flexible guidelines governing how OE grants can be used and what they can pay for. In response, we have since incorporated additional flexibility into our OE grantmaking to best support our grantees' needs.

VI. What's Next for the OE Program

As we look towards the future, we seek ways to adapt and refine our program model to meet the needs of an ever-changing environment. In 2018, we launched our Organizational Effectiveness-Diversity, Equity and Inclusion (OE-DEI) pilot grantmaking initiative. As our guiding principles state, the foundation embraces the importance of diversity, equity, and inclusion both internally and externally—in our grantmaking and related practices. We embrace these values because it is both the right thing to do, and the smart thing to do—we have a responsibility to, and our work is better for it. The tensions and conflicts we are experiencing both nationally and globally underscore the urgency and challenges of this work.

The additional $2 million in OE-DEI funds will help support the foundation's existing grantees in building their internal capacity in various aspects of diversity, equity, and inclusion (DEI). We believe that the prioritization and exploration of these topics will make these organizations stronger internally. This could, in turn, result in organizations and sectors that are more responsive to disparities and inequities, and inclusive of more

voices and perspectives. As important, this pilot fund will help us learn about how best to support nonprofits' growth and development in this sensitive and complex arena. To that end, we created an OE-DEI Learning Community with representatives from across the foundation that meets regularly to provide input and share experiences and lessons learned. We also share our experience and exchange information with others in the field to learn from each other and enhance our grantmaking.

We have already gained valuable insights from the Education Program's pilot DEI grantmaking over the past two years, which taught some noteworthy lessons to take into the foundation-wide effort. DEI work takes time and patience: grantees report that it gets harder before it gets easier, which is consistent with our own internal experience. DEI efforts often lead to difficult and uncomfortable internal conversations, exposing challenges the organization may not have realized were even there. Many grantees discovered that they needed to step back for some deep reflection before they could move forward with new practices. Such difficulties make it imperative for our program officers to be prepared properly to support grantees as they navigate their internal DEI efforts.

Equally important, working on DEI is a continual, iterative process that requires participation at all levels of an organization, including support from its board. In many instances, an organization's mindset and culture need to change before the organization can think about shifting strategies and processes, and this takes time and staff capacity. While our OE-DEI fund presently makes only one-time grants, we expect our grantees to be prepared to sustain this important work beyond this one grant.