

The Platform for Performance:

Integrating Organization into Strategy for the Next Generation of Grantmaking<sup>1</sup>

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Last spring, we were discussing grantmaking approaches with a program officer of another major foundation working in international development. She recounted how members of her division had recently gathered to review an analysis of the hundred-plus largest grants made over the previous year. The analysis was commissioned to help guide a top-to-bottom revision of the division's operating plan, and specifically to examine why failed grants had missed their objectives. Much to the staff's surprise, the top two reasons for failure were directly related to grantees' organizational capacity. The program officer told us, "My colleagues were stunned. People looked at each other and said, 'What, how could that be? How could it not be about the strategies?'"

Interestingly enough, when we conducted our own review of closed grants with colleagues at the Hewlett Foundation, we discovered similar results. Again and again, an investment's failure was primarily due not to the idea behind the grant—or, as we thought of it at the time, "strategy"—but rather to the organization's inability to implement the goals and plans spelled out in the grant agreement. In many cases, grantmaking errors on our part had also contributed to these disappointing outcomes. We simply didn't have the capacity ourselves to adequately assess and address our grantees' organizational and operational issues.

These are familiar stories in today's philanthropic community. Successful grantmaking is not just about setting clear goals, developing sound theories of change, and choosing the right measurement indicators. It is also about grantees' ability to deliver results.

This essay argues that in order to reach and sustain social impact, philanthropists need to assign greater value to grantees' capacity to implement programs; encourage ongoing learning and adaptation as work unfolds; and support a foundation of organizational and operational structures, processes, and capabilities that ultimately turn vision into change on the ground.<sup>2</sup> We believe this shift in perspective—an expansion of the concept of "strategy" to include what we call an organizational "platform for performance"—will have significant consequences for the practice of grantmaking and the professional development of grantmakers.

To be clear, we are not arguing that funders micromanage the internal workings of grantee organizational and operational capacity. In fact, the stronger and more healthy a grantee's organization is, the more readily a donor can—and should—“let go” so that the grantee can best shape its own strategies and programs in pursuit of the broader goals it shares with the donor.<sup>3</sup>

### **The Underappreciated Factor: Organizational Capacity**

Scholars and analysts have been arguing for some time that nonprofits must build capacity in order to create sustainable change. In 2004, Paul C. Light predicted a pending crisis in the nonprofit sector based on lack of investment in capacity. Endemic to the problem, he noted, was the tendency of boards and donors that were funding programs to underestimate the dollars needed to deliver results.<sup>4</sup> At about the same time, McKinsey & Company published a landmark article in the *Harvard Business Review* arguing that nonprofits could realize an estimated “\$100 billion opportunity” in increased cost effectiveness and impact if they had more capacity to better manage their organizations and resources.<sup>5</sup> But despite these and other efforts to increase awareness, grantmaking strategy—and grantmaker training—have largely ignored the value of organizational and operational capacity.

What explains this? First, many grantmakers have little direct experience in nonprofit operations or management, so there is some element of “not knowing what we don't know.” Indeed, foundation program officers are largely hired for their deep content expertise, not managerial skills.<sup>6</sup> This experience gap is often even wider in the more technical, complicated world of international grantmaking, where capacity-building grants can be limited by laws or regulation.<sup>7</sup>

Second, philanthropic discussions in recent years elevated strategy (as defined by “goal setting,” “theories of change,” and “measuring quantifiable impact”) to a higher plane of interest. Over time, this intellectually exciting topic began to be perceived as something conceptually separate from, and more important than, “back-office” topics. This trend also influenced philanthropic literature and grantmaker training. When we reviewed frequently cited handbooks, guides, and books for grantmakers, we often found organizational capacity included—but not as *part* of strategy. Many reflected the thinking found in one of the standard how-to manuals, first published a decade ago, which treated organizational capacity as an afterthought: although capacity “is the final test every [grant] proposal must pass . . . unfortunately the only way to know is to fund the idea [behind the proposal] and find out.”<sup>8</sup> Not surprisingly, these publications provide little practical information on what organizational capacity is, how to assess and measure it, or how grantmakers can constructively engage grantees on these sensitive issues without counterproductive micromanaging.<sup>9</sup>

Third, grant-seeking nonprofit organizations have few incentives to open up to their donors about their organizational and operational capacity and health. Thus, these factors are likely to remain in the dark unless the funder initiates such discussions with the grantee from the start as part of

their regular conversations. Unfortunately, if an internal crisis or implementation failure prompts an organizational effectiveness discussion, it is likely too late for effective intervention—and a much harder conversation.

Finally, many foundation program staff and grantees are understandably wary about entering into this terrain with each other, especially given the money-power dynamic inherent in funder-grantee relationships. There also is a fine line between funders' providing constructive, appropriate capacity support and their inappropriately meddling with a grantee organization—and inadvertently doing more harm than good in the process.

### **Signs of a New Trend in the Sector**

However, by our observation, there is a shift emerging across the philanthropic community to integrate organizational capacity with the more established elements of grantmaking “strategy.” This shift is in line with several major trends that have driven change in the field over the last several years:

*Higher expectations for results and sustained performance.* One obvious driver is the now common expectation among donors and other stakeholders that nonprofit organizations must account for their results and impact. A close cousin of this demand for results is the demand for ongoing, sustained grantee performance. Increasingly, donors, grantmakers, and other stakeholders are looking not just for an organization's impressive innovation or a celebrated two-year program—but for a measure of its impact over years.

*Growing risk of public scrutiny and shame.* Another related trend is the technology- and media-fueled scrutiny of nonprofit operations. Scandals—or simply incompetence—are ever more visible, and the resulting damage to reputations and finances affects not only perpetrating nonprofit organizations but also those funding them.<sup>10</sup>

*Changes in the concept of strategy.* Perhaps the most important trend is the changing nature of strategy itself as a discipline. Although the for-profit and nonprofit sectors admittedly differ, there is a steady shift in commercial organizations away from purely analytical, top-down strategies toward ones that emphasize capabilities, dynamic leverage of assets, and flexibility to respond when market conditions change.<sup>11</sup>

Several large funders are now starting to move in this direction, focusing more on grantees' organizational capacity issues.<sup>12</sup> Candy Marshall, who leads Global Health Operations at the Bill & Melinda Gates Foundation, recounts her organization's realizations about the importance of grantee capacity over the last several years:

We have always recognized that the foundation cannot achieve impact in the world without vital, healthy strategic partnerships. Early in our grantmaking, we naively

assumed that our key grantees would have both the organizational capacity and capability to partner with us in achieving the outcomes we had defined. After some setbacks, we have realized that we have a responsibility to work with and support our key grantees as they build the needed organizational capacity and capabilities. We are now working with a number of grantees to do this.

At the Open Society Foundation, the Latin America team has recently shifted its approach to focus more on building the capacity of key grantee partners as part of its overall strategy for the region. In early 2010, it launched a region-wide initiative that includes peer learning, to strengthen the capacity of grantees. OSF grantees, such as Miguel Pulido Executive Director of a research and advocacy organization in Mexico, are endorsing the initiative. Pulido said the process helped his organization, Fundar, focus attention on the internal issues they most needed to address in order to support their goals:

Our internal culture, IT infrastructure, and human capital are core to our success as an organization – and at the heart of our ability to act as an effective public watchdog. The OSF process has led to improvements in our morale, peer-learning, and ability to meet commitments. Our goals are more focused and our staffing is better aligned with the priorities laid out in our strategic plan.

Some grantmakers arrived at a more integrated approach to combining strategy with capacity earlier on. Edna McConnell Clark Foundation only funds organizations with proven implementation track records and the potential for growth based on their capacity, and the New York-based Wallace Foundation, has for a few years now strongly emphasized building organizational capacity, especially in its large and multiyear grants. Ed Pauly, their director of evaluation, explains their experience as follows:

All of our major grants . . . ask two things of the grantee: how will you innovate, and how will you raise your performance, that is, go beyond your normal operating procedures. . . . We build essentially a performance contract with the grantee which we regularly review with them, to assess their progress and understand the capacity they need to succeed. We first learned how to do this in some of our original after-school program work, and saw the importance of—and positive results from—investing with them in much stronger financial systems and record-keeping to better manage their costs and service delivery.

Interestingly enough, research conducted by the Center for Effective Philanthropy (CEP), confirms the rising awareness of the necessity of grantee capacity for achieving impact. As CEP's Kevin Bolduc explains:

We're in the midst of a long-term trend of greater appreciation about the attention that needs to be paid to funders implementation strategies and to both funder and grantee

capacity. Our research suggests that much of foundation grantmaking is still not very strategic. As funders push themselves to have more strategy, there needs to a focus on the subsequent process of implementation and what that takes.

### **From “Organizational Capacity” to “Platform for Performance”**

As organization and operations rise in perceived importance to successful grantmaking and strategy, we think it is helpful to signal this new way of thinking with new language —moving beyond the often vague concept of “organizational capacity” to a more value-driven concept we call the “platform for performance.”

For many grantmakers, a traditional assessment of “organizational capacity” or “effectiveness” amounts to a standard list of items to check off before awarding a grant: *Governance? Executive Leadership? Staff Capacity? Check the appropriate box (poor, good, excellent)*. This effort is better than nothing, but does not explicitly link organization and operations to strategy or goals. Such checklists rarely address all of the essential elements that make for a robust and competent organization or the relative strength of individual elements. Each is presented with the same level of importance and with the presumption that all organizations should equally strive for some vague measure of excellence across the board. Absent is the critical notion that each grantee’s specific goals, theory of change, and local and field context require a particular kind of organizational capacity. In other words, traditional organizational effectiveness assessments, checklists, or plans for grantee capacity largely ignore how each element might actually impact strategy and help reach maximum performance.

Understanding how capacity is linked to performance allows grantmakers—and grantees—to focus together on the mission-critical elements that are truly strategic. This understanding will differ depending on the shape and maturity of the field, the grantee itself, and often the broader role the grantee is expected to play in advancing change. Both grantmakers and grantees increase the chances of meeting their shared goals if they selectively and powerfully focus their time and resources on strengthening the right elements.

This is the process for building what we call the organizational “platform for performance”: (1) understanding capability comprehensively; (2) differentiating between *basic capacity* and a higher level of *sustainable performance capacity*; and (3) appropriately focusing and prioritizing capability building to directly align with the goals, theory of change, and broader context in which a grantee operates. When grantmakers reorient their thinking and approach capacity in this way, they can partner with grantees not just to satisfy a checklist but rather to achieve impact.

## The Architecture of Platforms and Strategies for Performance

FIGURE 1



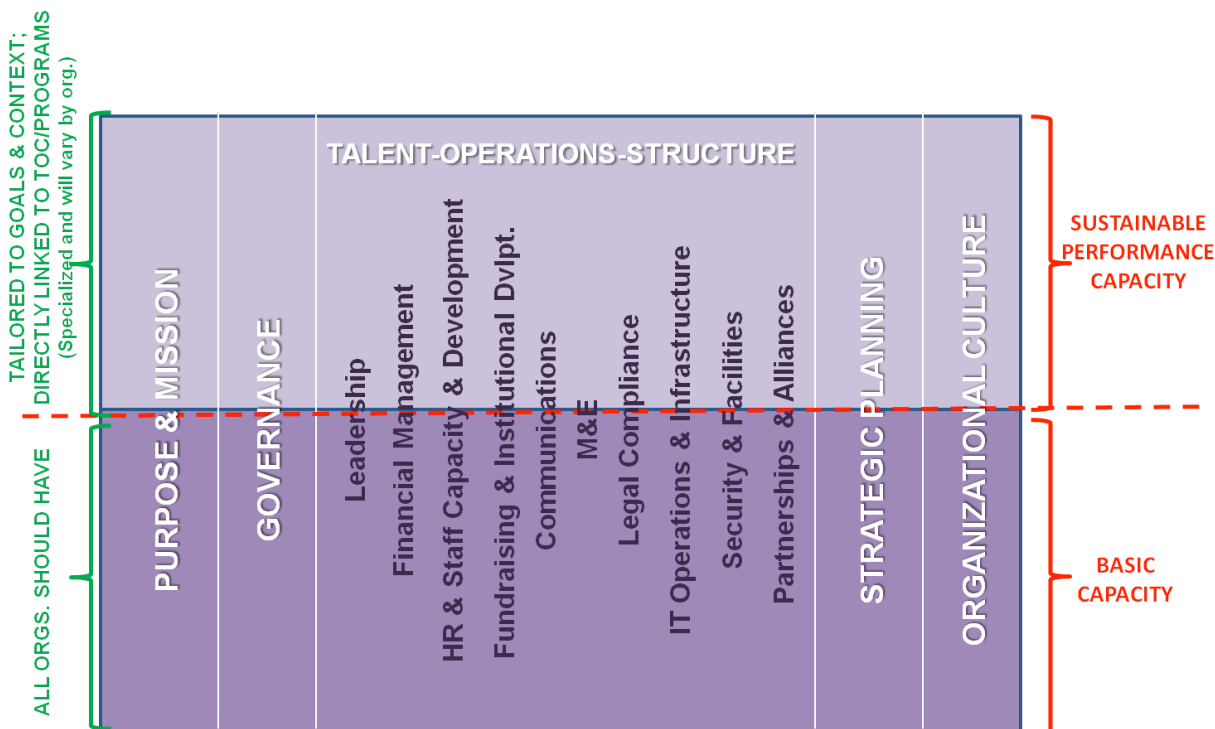
Our perspective that a more integrated approach to building organizational capacity is part of strategy begins with an overall framing of strategy *per se* (Figure 1). As important as the “platform” is for sustainable performance, it is not the totality of strategy, and in fact it gives life to strategy only in the context of two other critical dimensions. These are first, the cluster of conceptual elements that focus and measure progress—the goals, “theory of change”, indicators, and feedback loops; and second, the projects and programs the organization develops and implements to pursue the social change it aspires to. Well

designed and constructed, these two dimensions work in harmony, and also with the organizational and operational skills, knowledge, and infrastructure that enable implementation and sustained delivery of performance: the platform. The three inter-related and mutually reinforcing dimensions make up what we would define as the overall model for strategy—for both the grantee and grantmaker seeking to align aspirations and plans with the philanthropic investment.

Though all three dimensions are vital to successful, impact-sustaining strategy, we focus our attention on the organizational capacity platform because, while others have written extensively about theories of change, evaluation, and program design, we think organizational capacity has been undervalued in philanthropic practice and literature. So what specifically do we mean by the “platform for performance?”

Unlike traditional organizational effectiveness checklists, the platform for performance represents an integrated analytical framework for the multitude of capabilities, resources, infrastructure and systems that constitute capacity. For simplicity’s sake, we describe them with a five-part model. Four parts represent critical framing dimensions of the overall platform: *Purpose and Mission*, *Governance*, *Strategic Planning*, and *Organizational Culture*. The final dimension is the assemblage of the people, core processes, and infrastructure that enables and provides the daily work of the organization: *Talent, Operations, and Structure* (Figure 2).

Figure 2  
BASIC VS SUSTAINED PERFORMANCE CAPACITY



**Platform for Performance**

***Basic Capacity versus Sustainable Performance Capacity***

Any organization needs all five elements in this platform to function in a credible manner, and each must demonstrate a limited, but essential, capacity for the organization to make ongoing progress. This level of operation—“Basic Capacity”—is defined by the simple presence of, and a minimal attention paid to, core fundamentals. Yet, unlike a standard checklist, the platform for performance also articulates a higher level of capacity that an organization can understand and strive for in connection to its particular goals and context. In each of the basic elements of organizational function, the platform describes specific targets for the next level of performance: “Sustainable Performance Capacity.” Basic and Sustained Performance capacity are illustrated in Figure 2 and detailed in Figure 3.

Figure 3: Basic versus Sustainable Performance Capacity

		Basic Capacity	Sustainable Performance Capacity
<b>Purpose &amp; Mission</b>		A clear statement, which all staff can easily see and describe, of why the organization exists and its overall rationale and hope for a better world.	Processes and metrics that tightly align strategy and programs with purpose and mission, with staff clearly prioritizing and pursuing their work toward these ends.
<b>Governance</b>		An independent board that meets regularly and has succession plans and policies; discharges minimal, but normal, fiduciary responsibilities; holds executives accountable for meeting strategic and operational objectives; and collaborates in fund-raising activities.	An actively engaged board that raises the organization's performance and furthers its mission; uses its relationships and expertise to support staff; fully understands and fulfills its fiduciary duties; actively defines performance targets and holds the ED fully accountable; and is empowered to hire or fire the ED if necessary.
<b>Talent Operations Structure</b>	<b>Leadership</b>	Competent executives across all functional areas, with integrity, no conflicts of interest, and a functioning, independent board.	Some leaders with distinctive skills and reputations, a collaborative and well-functioning executive team that deeply understands strategy and a board of directors that provides stewardship well aligned with goals and objectives.
	<b>Financial Management</b>	Basic financial and reporting systems, with production of basic financial statements.	Financial systems tuned to allow for dynamic decision making about resource allocation. Investment choices based on program results and evaluation.
	<b>HR &amp; Staff Capacity &amp; Development</b>	A staff development plan and sound HR policies and management processes.	Structuring, professional development, and allocation of people and skills with an eye to program priorities.
	<b>Fundraising &amp; Institutional Development</b>	Diversified sources of funding.	Development of fund-raising skills and effective fund-raising strategy. Program-specific resource strategies.
	<b>Communications</b>	Segmentation of audiences and communication strategies. Consistency of information provided through different outlets. Long-term, productive relationships with the media.	Intensive use of different communication outlets, particularly social networks, to create critical mass behind messaging. Outstanding capacity to react to events and project a message. Acknowledged authority regarding issues or problems related to mission. Evaluation of communication strategy's impact.



		Basic Capacity	Sustainable Performance Capacity
<b>Talent Operations Structure</b>	<b>Monitoring &amp; Evaluation</b>	Monitoring and evaluation systems; activities and strategies linked to targets and indicators; and regular reports on performance information.	Systematic practice of making adjustments and improvements on basis of evaluations. High-level decision making that is evidence-based. Organization-wide performance management system.
	<b>Legal Compliance</b>	Nonprofit status and compliance with the legal and fiscal framework.	Ability to take advantage of fiscal status in order to maximize resources.
	<b>IT Operations &amp; Infrastructure</b>	Updated hardware and software. Safe storage and sharing of information. Adequate staff-hardware ratio.	Increase in collaborative work beyond functions and organizational units due to communication and information technologies. Advance-knowledge management systems. Information systems tailored to organizational needs.
	<b>Security &amp; Facilities</b>	Adequate, secure office space.	Facilities and information security protocols. Ownership of adequate, secure office space.
	<b>Partnerships &amp; Alliances</b>	Existence of partnerships and alliances required to participate in the field or sector ecosystem, and networks; Alignment of partnerships and alliances with program goals. The organization largely chooses and negotiates the partnerships on an organization-to-organization basis.	Relationship planning and management is valued and integrated as part of the work of the organization; proactive sharing of information and contacts; deep understanding of how partnerships, alliances, and networks can improve effectiveness, learning and achievement of goals/impact; leadership role in convening and network learning, planning, and action. At least part of the organization’s strategy is co-created and managed collaboratively with partners.
<b>Strategic Planning</b>		A basic framework for setting annual goals and basic measures of success; communicating them; and allocating and aligning resources to achieve objectives.	Sharp understanding and strong capabilities to develop strategic plans that allocate resources and programs to achieve clearly prioritized goals, with mechanisms for ongoing reevaluation, learning, and course correction.
<b>Organizational Culture</b>		A climate in the organization that reflects basic values required by its mission—such as integrity, merit, and collaboration. A shared acceptance of “the way we do things around here.”	Energy and excitement among staff, board and all partners to achieve mission success and constant reinforcement of that culture through practices, incentives, rituals, and leadership motivation.

### *The Link to Impact: Prioritizing Platform Elements*

Performance targets for each element of the platform help both grantmaker and grantee set strategic priorities in a way that maximizes the impact of the funder's investment. Increasing organizational capacity in all elements isn't a bad approach. But in the real world, investment is inevitably limited: there's only so much management attention that can—and should—be given to building up a grantee's platform for performance. A strategic platform identifies the elements that can acceptably be built or maintained at the Basic Capacity level, while also targeting for greater capacity building the handful of elements that can potentially contribute to sustainable impact.<sup>13</sup>

It is important to remember that the platform concept is not a one-size-fits-all model. A platform for performance must be suited to each individual organization: its mission, goals, and local context. These will be different for every grantee. In other words, the nature of an organization's overall strategy will necessarily determine the size, relative priorities, levels of sophistication, and relative flexibility and rigidity of specific platform elements.

For example, one major funder we spoke with was working with a thinly staffed organization whose mission was to discover and spread social innovation in agricultural development. The organization's management and operational structures were competent (it produced regular budgets; knew how to comply with tax and legal requirements in the several countries around the world in which it operated; had an independent, responsible board), but no one would have characterized the enterprise as having state-of-the-art operations. Once the funder was confident about the grantee's basic operational capability, it did not insist on significant upgrades—with one major exception. Because the heart of the grantee's value proposition and mission was the spread of innovation by practitioners in the field, the grantmaker engaged the organization's leaders to develop a sophisticated social media and knowledge-sharing IT infrastructure. The new application, now funded, has dramatically increased the exchange of new ideas and promises to widely introduce innovations across farming communities around the world.

Another illustration: a Mexico-based advocacy grantee whose strategy focuses on public budget monitoring, research, and analysis, needed basic capacity in all five platform elements in order to operate and maintain activities. For example, it had to have basic financial capacity of its own, but nothing state-of-the-art. However it did need higher-level platform performance capacity to conduct highly technical tasks involved in accessing and analyzing government budget data. Sophisticated IT infrastructure, superior software, and specialized staff skills are core capacity elements required to reach their goals. In addition, this organization's theory of change requires advocacy based on the evidence they generate, so strong external communications is another core, high-level capacity it must focus on—and invest in—for sustained performance and success.

Consider, too, the platform priorities of a provincial NGO in India working to ensure public health services for the poor, and in the process uncovering corruption and coming up against vested local interests. Because of the organization's focus and its operation in a challenging, risk-filled environment, its top platform investment concerned security and safety—for its staff, premises and equipment, and communications. Accounting systems and IT were less important, requiring investment and maintenance only at the level of Basic Capacity.

Conversely, and as might be expected, poor alignment of capacity and strategy at the highest level of platform performance undermines sustained organizational performance. A leading U.S. organization in the field of education had a strategy that depended largely upon the personal advocacy and leadership of its executive director. Yet the organization failed to put in place the operational support systems that would have allowed him to conduct this high-value external work; the strategic planning to focus his efforts; or the investment in professional development to build staff capacity. The absence of basic human resources policies, for example, meant the executive director's time was frequently needed to handle low-level personnel issues. Because of all these failures, he fell hopelessly behind on commitments to funders and other partners, missed major opportunities to increase impact, scale advocacy, retain talented junior staff, and reach fundraising goals. This organization's platform was undermined by eroding Basic Capacity in all areas and, ultimately, by governance failure: its inactive board entrusted the executive director with every aspect of running the ailing organization.

A final example of misaligned capacity with strategy highlights the importance of understanding the field context and local laws and regulations when working with grantees outside the United States. In 2001, the Hewlett Foundation made several large grants to newly established community foundations on the Mexican side of the border. Their aim was to direct these funds to small, environmental NGOs that were critically important to the long-term environmental health of the border region, but too small to absorb funding directly from the Foundation. In addition to regranteeing funds, the community foundations received capacity-building support for staff and board development, communications strategies, and grantee selection. However, when it came time to distribute the money, the community foundations (and the Hewlett Foundation) were shocked to learn that there was no way for them to legally act as pass-through funders for the NGOs in Mexico. Strategic planners had failed to consider tax implications as part of implementation and assumed that U.S. rules about tax-deductible status also applied in Mexico.<sup>14</sup> In addition, capacity-building investments had been off-target. Early investment in basic legal advice could have saved millions of dollars and caused everyone involved to rethink the basic grantmaking strategy and theory of change.

### **Putting Platform Thinking into Practice**

How can the wider philanthropic community put these lessons to good use and make “platform thinking” general practice? Every grantmaking organization will have its own approaches and

ways of working, but we offer three principles that can guide any funder to achieve longer-term, sustainable impact with their investments:

1. *Pursue capacity assessment and development in parallel with—and at the outset of—grant planning, focusing particularly on key elements that will drive performance.* Too often, capacity building (if it is considered and funded at all) is imposed after grants start to go wrong. Considering it from the start is much more likely to lead to positive outcomes. This timing both eases conversations with grantees and allows grantmakers and grantees to better understand what they are signing up for. It further establishes a vehicle for ongoing course correction and mutual learning—as opposed to emergency CPR—as the grant progresses. Perhaps most important, it allows for capacity building to be aligned, prioritized, and appropriately resourced as an integrated part of strategy, which we believe yields better long-term results.
2. *Approach platform development in true partnership with grantees, embracing an appropriate “culture of engagement.”* Evidence shows that the success of organizational-strengthening investments depends on a grantee’s readiness and *willingness* to engage and implement targeted improvements. As a result, grantmakers must foster this genuine willingness through the professional *way* they engage with grantees on capacity issues. The last thing a grantmaker should do—or appear to do—is to micromanage an organization’s behind-the-curtain operations. But once platform development is elevated to the level of strategy, and both grantmaker and grantee honestly embrace achieving mission impact together, capacity issues can fairly and appropriately become part of regular grant discussions.

Too many grantmakers—well-intentioned but frankly clumsy—alienate grantees by meddling at a level of organizational detail that the grantee better understands. The goal of a strong, appropriate “culture of engagement” between grantmaker and grantee is to build trust and find the right middle way between dangerous *laissez-faire* and heavy-handed micromanagement.

3. *In building a platform for performance, share the responsibility: don’t simply shift the burden to grantees and consultants.* Grantmakers who appreciate the importance of organizational capacity sometimes cause other problems by handing necessary fixes over to others too quickly. If there is a true partnership between grantmaker and grantee, both must share and own the challenge of strengthening the platform. Similarly, though it is unrealistic to expect any grantmaker to have expertise in all dimensions of an organizational and operational platform, unguided outsourcing of assessment and development to consultants will often cause its own problems. Consultants who lack the appropriate context and strategy of the grant may pursue a costly and undifferentiated focus; they may also lack sensitivity to key risks—and also opportunities—that are illuminated by the deeper relationship between grantmaker and grantee.

## **The Future of Platform Thinking**

If we are correct, and there is a paradigm shift among leading grantmakers across the philanthropic community, then further evolution of platform thinking lies ahead. That said, if grantmaking strategy comes to equally comprise theories of change, goals, and indicators as well as concern for organizational capacity, we hypothesize some interesting, attendant changes for all grantmaking organizations:

*Grantmakers will approach, develop, steward, and evaluate grantees with greater concern (appropriately handled) for their performance platforms.* In this emerging new world, grantmakers and grantees will together develop strategies that combine traditional elements of planning with focused investment in organizational capacity. In so doing, they will build trust and collaborate across some acknowledged boundaries: the line between basic and higher performance for selected strategic elements, and the line between external assessment and internal proprietary operations. Great grantmaking will entail partnering with a grantee to cross the boundary to higher performance, while still respecting the boundary within which it (appropriately) manages its own business. Strategy in the future will increasingly include building not only elements of the platform but also the right culture of engagement to sustain them.

*The skills and profiles of future grantmaking professionals will change, with implications for their recruiting, training, and professional development.* We are not suggesting that future grantmakers must all become organizational effectiveness gurus. However, they will have both greater appreciation of management and operational topics themselves, combined with an increased ability to work on such issues with suitable consulting resources. The growth of platform thinking is thus likely to engender deeper and different training for grantmakers, including from organizational practitioners, so they are better able to integrate these perspectives into their work. The greater importance of organizational effectiveness skill and knowledge will also reshape the career paths of grantmakers. If they are increasingly held responsible for—and evaluated on the basis of—grantee impact, their advancement will depend on having the necessary organizational effectiveness competencies beyond “generating great ideas.”

*Grantmakers will increasingly use not just consultant-led capacity building but also peer-to-peer learning to improve grantees' platform capabilities.* As we have seen at the Hewlett Foundation (and among other funders such as the Bill & Melinda Gates, Open Society, Rockefeller, and Edna McConnell foundations), there are great opportunities for bringing grantees together to learn from one another and build capacity. This peer-to-peer approach—in which the funder acts as the convener and broker of best practices, rather than the mandater of change—is a less threatening, and often more effective, way to raise awareness and build skills related to different dimensions of capacity. Research on achieving collective impact among multiple grantees further suggests the power of a collective platform, in terms of shared indicators of progress and collaborative strategic planning.<sup>15</sup>

*Platform thinking will reshape the capacities of grantmaking organizations themselves.* Finally, grantmakers will have to intentionally explore ways to bring platform thinking into their own organizational and operational capacity: guiding the work of program staff; creating an overall approach to developing talent and knowledge; recruiting future grantmakers with an eye to this more holistic approach to strategy; and giving them the training, tools, influence, skills, and peer-to-peer learning to allow them to be successful within this new paradigm. In the end, grantmaking organizations will have to develop—and evolve—their own platforms for performance, integrating their theories of change, programs, and organization to achieve more measurable and sustained performance for their own missions and goals.

The nonprofit world today is facing its own revolution. Its organizations must perform in an increasingly complex, volatile world, where it is very difficult to predict which strategies will ultimately succeed<sup>16</sup>. We argue that just as for-profit organizations are building organizational capability platforms to allow them to flexibly and dynamically compete for opportunities, so nonprofit organizations will have greater success if they can innovate flexibly and quickly in emergent situations—using their distinctive abilities to learn by doing. If it is an overstatement to say “strategy is now equal to organization” (as some, in fact, do), it is valid to suggest that organization must become an integral part of strategy—particularly as performance itself becomes ever more ephemeral and difficult to sustain for any organization.

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<sup>1</sup> This essay has benefited from the input and collaboration of many colleagues at The William and Flora Hewlett Foundation. Special thanks to Foundation President Paul Brest, Vice President Susan Bell, and Jen Ratay who have supported this work from the outset and generously contributed ideas and insights at many steps along the way. Thanks also to colleagues at the Hewlett Mexico City Office, whose experience and insight about grantmaking practice critically shaped the themes of this essay: Libby Haight, Guadalupe Mendoza, Erika Ramos. Cristina Galindez also provided significant support and helpful feedback. Other grantmakers and practitioners in the philanthropic sector have also graciously shared ideas and perspectives based on their own domestic and international practices.

<sup>2</sup> See another recent article that complements this point, echoing some of the thinking in this essay and arguing on the basis of new research that most foundations still lack the understanding and skills to link strategy to “on-the-ground” realities of implementing it: Patricia Patrizi and Elizabeth Heid Thompson, “Beyond the Veneer of Strategic Planning,” *The Foundation Review* 2, no. 3 (2011): 52–60. We acknowledge, before proceeding further, that we are not the first to focus on the importance of organizational effectiveness to good grantmaking. For a helpful and representative earlier work, see McKinsey & Company (for Venture Philanthropy Partners), *Effective Capacity Building in Nonprofit Organizations* (Washington, DC: Venture Philanthropy Partners, 2001). This treatise and its capacity model have been an invaluable source and starting point for much of the thinking in this essay. See also articles in Lori Bartczak, *A Funder’s Guide to Organizational Assessment: Tools, Processes, and Their Use in Building Capacity*, ed. Kevin Bolduc (St. Paul, MN: Fieldstone Alliance Publishing Center, 2005). That said, however, the McKinsey & Company report, titled for nonprofit organizations, does not offer the unique perspective that a funder brings to the issues of grantmaking for performance. Other previous work has tended to see organizational effectiveness and related issues as isolated, separate endeavors, that is, as complements to, rather than integral parts of, overall strategy. Our goal is to more strongly unite “concepts” with “practice” and “planning” with “capability” as new way of approaching grantmaking strategy and impact.

<sup>3</sup> We make this point with acknowledged debt to the recent article that raises, from a different angle, some of the same themes of this essay: Kristi Kimball and Malka Kopell, “Letting Go,” *Stanford Social Innovation Review* (Spring 2011): 37–41.

<sup>4</sup> Paul Light, *Sustaining Nonprofit Performance: The Case for Capacity Building and the Evidence to Support It* (Washington, DC: Brookings Institution), pp. 2ff.

<sup>5</sup> Bill Bradley, Paul Jansen, and Les Silverman, “The Nonprofit Sector’s \$100 Billion Dollar Opportunity,” *Harvard Business Review* (May 2003): 94-103. This article set the stage for subsequent important work led by McKinsey to create a capacity-building framework, whose thinking has helpfully contributed to our own essay here: McKinsey & Company (for Venture Philanthropy Partners), *Effective Capacity Building in Nonprofit Organizations*. We have also benefited from articles in Bartczak, *Funder’s Guide to Organizational Assessment*.

<sup>6</sup> In its 2008 field survey, Grantmakers for Effective Organizations (GEO) found that foundation staff with nonprofit work experience were twice as likely to support grantee capacity building and nearly three times more likely to directly support grantee leadership. This supports our assertion that grantmakers without such experience are much less likely to focus on organizational capacity issues: *Is Grantmaking Getting Smarter? A National Study of Philanthropic Practice* (2008), p. 8.

<sup>7</sup> U.S. donors engaged in international grantmaking must be prepared for the complexities and different legal requirements for managing expenditure responsibility grants and/or obtaining IRS equivalency determinations for their grantees. This includes additional documentation during the due diligence stage; greater substantiation of the charitable purpose; additional, often more complicated, reporting requirements; and greater oversight due to the larger number of IRS restrictions on how grant funds can be spent. In addition, funders need to be aware of, and in compliance with, local nonprofit rules and regulations.

<sup>8</sup> Joel J. Orosz, *The Insider’s Guide to Grantmaking: How Foundations Find, Fund, and Manage Effective Programs* (San Francisco: Jossey-Bass, 2000), p. 93.

<sup>9</sup> The Council on Foundation’s *Complete Guide to Grantmaking Basics* (2008) addresses some elements of capacity and how grantmakers should interpret them (e.g., nonprofit finances and interacting with grantees’ boards of directors), but does not link organizational effectiveness to strategy or implementation capacity. Orosz sums up how grantmakers should address organizational capacity, by stating: “From time to time, the essence of good grantmaking lies in taking a leap of faith; funding on the potential capacity of the applicant, not on its actual track record” (p. 94-95). *Money Well Spent: A Strategic Plan for Smart Philanthropy* by Paul Brest and Hal Harvey (New York: Bloomberg Press, 2008) argues that strategic philanthropy is about deploying resources in order to achieve goals most effectively. For Brest and Harvey, strategic philanthropy includes having well-defined goals, a sound strategic plan, and evidence-based ways to monitor progress and measure and evaluate impact—all very important elements of strategy, in our opinion—but missing organizational capacity as a component of philanthropic strategy. Peter Frumkin, in *Strategic Giving: The Art and Science of Philanthropy* (Chicago: University of Chicago Press, 2006), also omits any link between organizational effectiveness and strategic giving. A review of recent and upcoming courses for new grantmakers resulted in similar findings.

<sup>10</sup> Paul C. Light, *Sustaining Nonprofit Performance: The Case for Capacity Building and the Evidence to Support It* (Washington, DC: Brookings Institution, 2004); M. Gibelman and S. Gelman, “Very Public Scandals: An Analysis of How and Why Nongovernmental Organizations Get in Trouble” (working paper, International Society for Third-Sector Research Fourth International Conference, Dublin, Ireland, July 7, 2000), <http://www.istr.org/conferences/dublin/workingpapers/gibelman.pdf>.

<sup>11</sup> See recently, for example, Paul Leinwand and Cesare Mainardi, “The Coherence Premium,” *Harvard Business Review* (June 2010): 2–7. This article cites some of the important antecedents of this thinking in the 1990s.

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<sup>12</sup> For many funders, organizational capacity has always been important, with some grantmakers simply emphasizing it more than others. For example, many foundations invest in some form of organizational effectiveness for their grantees. The Packard Foundation has long had an Organizational Effectiveness Program and led the field of organizational effectiveness grantmaking, support, and research. The Hewlett Foundation also has a separate Organizational Effectiveness program that supports grantees above and beyond the program grants provided. But this support typically involves one-off funding to introduce or build some critical elements in a grantee's capacity, such as board development or strategic planning; it has not systemically assessed and developed an overall capacity platform, nor has it linked capacity directly to strategy.

<sup>13</sup> This point echoes much of the argument made for for-profit organizational strategy, as described by Leinwand and Mainardi.

<sup>14</sup> The silver lining to this story is that as a result of this failure, the community foundations involved, led by the Tijuana Community Foundation, successfully advocated for a change in Mexico's nonprofit law. As a result, Mexican environmental organizations became eligible for tax-deductible status in 2004.

<sup>15</sup> John Kania and Mark Kramer, "Collective Impact," *Stanford Social Innovation Review* (Winter 2011): 36–41.

<sup>16</sup> A central argument, in fact, of Kimball and Kopell.