



## Transcript

# Breakout session: Inspiring Success Through Your Philanthropy, with C.R. Hibbs and Alexa Culwell

**Ted Janus (PACS Advisory Board):** Hello everybody. My name is Ted Janus and I want to welcome everybody here.

I am a professional investor and I married a woman who I met through philanthropy. She was very involved in the non-profit world and I could have told her I was an investor when I met her but I don't know if she would have liked that very much. Luckily, I was able to talk about this wonderful organization I was involved in called SV2 that Laura Arrillaga had started. I was on the board—super involved with that. We started dating; we got very serious; got married; and together, we do lots of philanthropy today. So this conference is near and dear to our heart. And as I said, I'm a professional investor. I also teach over at Berkeley. The other night, I was teaching the investment class for the MBAs and I'm going to tell you about the one slide that really meant something to me: it was a triangle – risk, reward, cost. I think all investing really boils down to that, so risk, reward, and cost. Obviously reward is great but when you turn a dollar into five dollars, it's Facebook. Everyone knows that one. The cost is how much you spend. It's also the opportunity cost, you could have done something else with your time and your money which applies to philanthropy as well. And then the last part that I really, really spend a lot of time on, which is risk. And that's something that is the topic of this session right now—risk and how do you deal with that by focusing on strategy and capacity. I would now like to introduce our speakers. We have CR Hibbs who is the author of Integrating Capacity and Strategy, created in partnership with Stanford PACS. CR's work focuses on integrating organizational capacity and strategy, philanthropic training and learning and focusing communities of practitioners for collective social impact. And before coming to PACS, CR served as a senior advisor to the president of the Hewlett Foundation where she also spent ten years as a program officer and the managing director for Mexico for the Hewlett Foundation's Global Development Program.

[Download CR's book, here: <http://pacscenter.stanford.edu/wp-content/uploads/2015/09/IntegratingCapacityAndStrategyCRHibbsFinal-1.pdf>]

We are also welcoming Alexa Culwell. Alexa Culwell has served in the non-profit and philanthropic sectors for over 20 years, including serving as the CEO of the Charles and Helen Schwab Foundation and the Stupski Foundation. As a foundation executive and philanthropic advisor, she has created initiatives for more than 175 human service and education focused non-profits and she's incubated and scaled several social change startups in the areas of education and youth development. Her work has been cited in the Harvard Business Review, the Stanford Social Innovation Review, and by grant-makers for effective organizations. Alexa is a partner of the Silicon Valley Social Venture Fund, SV2 that I referenced earlier. She's a senior fellow of the American Leadership Forum Silicon Valley and a former trustee and current advisory board member of the Center for Effective Philanthropy. It is my pleasure to introduce these two to you. The purpose today is just to have a conversation with them. So let's everyone participate.

**Alexa Culwell:** Great. Well let me just tell you a little bit about how we're going to structure the session and then we're going to dive in. We're going to each provide some content, which we hope will be food for thought and reflection and conversation, something to react to and to begin to think about your own experiences. We're really going to be focusing on why philanthropic investments succeed and fail. We're going to talk about why grants fail, some really important research that CR has done and look at some frameworks that I've put together that integrates it. And so we're going to give you some content but we're going to do that in spurts.

Between CR and I, we've probably helped steward hundreds of philanthropic investments and probably several dozen major ones for non-profit startups, for larger non-profits and even investments in institutions like the very one that we're standing in here today. And so we've had to figure out and learn by doing how you think about the risks involved when people come to you with ideas and then you help pay to make them happen. What are all the things that can go wrong and what are some of the mistakes you could avoid to make that happen? So that's really what today is about.

**CR Hibbs:** Thank you. Welcome. It's really great to be here. The first thing that I want to do is piggyback on the question that Laura asked this morning of Reid Hoffman and Peter Thiel, and that is: "have you ever made a philanthropic investment that didn't meet your expectations or, shall we say, that failed?" Can we have a show of hands? Yes. Anybody feel comfortable telling us about that in just a real nutshell?

Audience member: We didn't move it far enough, we set the expectations too low and that is a way of failing. And so if we had set the bar higher than we did, it would have been ultimately more successful.

**CR Hibbs:** I noticed not everybody wasn't jumping to talk about their failures...

Audience member: Well, I think I've had two or three fairly large failures but for me usually what happens when I have a failed philanthropic investment: I haven't done a good enough job vetting the other person on the other side of the table: are they honest in their intentions and are they willing to share information with me and are they transparent about what's going to happen? And usually what will get me going is if they cost shift away from the initiative that we've agreed on or if there's changing expectations once we've agreed on what's going to happen.

**CR Hibbs:** Thank you. Now one thing I'm going to ask you to do is to register how it feels to talk about failure. And then I want you to also step into the shoes of your investment partner or the grantee and imagine how it must feel when they are going to tell you about their weaknesses and about their failures. And I just think that's an important thing to keep in mind and again, we'll come back to it.

And as you've probably realized now, a lot of what we heard this morning, what we're going to be talking about now is it's really important in philanthropy to be able to talk about failure, to be able to learn from failure, to be able to understand weaknesses and strategies and have these honest conversations where you can invest in those and really reach the goals that you share with the organization that you're funding.

So one of the interesting things about philanthropy, and there are many, as you know, is that, it's one of the few sectors where you can take really big risks and part of risk is that there's going to be failure. And I think there are two kinds of underlying rules to keep in mind. One is that you need to be clear about what your goals are, what is the target that you're going after. The second thing is developing this ability to do continuous learning, and that means figuring out what doesn't work and having alignment around that and

figuring out the power dynamic enough so that the organizations are able to talk to you and you understand enough about what they're doing so that you can learn together.

Ted mentioned that I worked at Hewlett Foundation for ten years. Paul Brest was the president when I was there and one of the things that he did was really try and encourage and build a culture of learning. And part of that was we had to talk about failure. He started the worst grant contest that became this very competitive contest between different programs at the foundation where we spent a half a day with our colleagues and assessed which program had made the worst grant that we had learned the most about. This was truly a graveyard of failed grants at the Hewlett Foundation. The prize was dinner with Paul, on Paul.

I was part of a winning grant one year. Hewlett made a series of very large grants to newly established community foundations in Mexico and the idea was that these community foundations would then regrant money to small environmental organizations that Hewlett funding was just too big to reach. There was some capacity building support to these organizations so they could do more development and communications. And they made these grants and announced them. And then it turned out that when it came time to distribute the money, there was no legal mechanism to do that because environmental organizations at the time were not tax deductible eligible and nobody knew that. Everybody had assumed that the same tax rules that applied in the US applied in Mexico. I will say that we learned, we re-tooled the strategy, and now environmental organizations, human rights organizations, women's rights organizations all have tax deductible status in Mexico. But that was because we learned from the failure and re-did the whole way we were thinking about those investments. Another winning grant was money that went to an organization to work on vehicle emissions controls and in the end, they started a shampoo company in Brazil!

So basically, we really all learned a lot from these worst grant contests but mainly around building this culture where we could talk and we could learn and failure wasn't something to be embarrassed about, it was something to learn from. And then at the end of my tenure at Hewlett, I started thinking about my own successes and failures and really started to realize that there was a pattern and that the failures had to do with implementation capacity of these organizations. We were so sold on these exciting ideas and strategies and dynamic, charismatic leaders but where the rubber hits the road, it wasn't happening.

I went back and I looked at six years of entries to the worst grant contest and basically found the same thing, that grant failure was almost always the result of organizational capacity failures. And for me, this was a real revelation because at Hewlett and I think in the sector more broadly, it was all about the strategy. And by that, it was the theory of change, how do we measure impact, what's the logic model. And if capacity came up, it was later down the road when things had often gone wrong and it was much harder to address those problems. And the result was that there's a lot of well-intentioned money going down the drain and a lot of hard work. And you know, worse than that, we really were not and still are not reaching the social and environmental goals that we have as philanthropists and share with the folks that we work with.

This really isn't new. There was an article in the Harvard Business Review about a decade ago that talked about the hundred billion dollar opportunity if non-profits could be better at managing their resources and organizations. But despite this, philanthropists, until more recently, haven't paid that much attention to the capabilities that it takes to implement these ideas. And I know it seems kind of weird talking about that in Silicon Valley where all the venture capitalists, they do so much due diligence and it's almost second nature. But for philanthropy, it's come a little bit late.

But, I think we're starting to see shifts in the sector. One reason is there are just higher expectations for results than ever before. There are greater expectations around measurable outcomes, about having an impact. And so people are starting to pay more attention to implementation capacity. There's also greater transparency than before with the technology that we've been talking about like social media and so these missteps or even malfeasance have higher costs than before. People know about when things go wrong and so there's also more attention to capacity. And then there are these changes in the concepts of strategy themselves that we also heard about this morning: it's less about these top-down structures and more about leveraging resources and being very nimble and being able to change and adapt to opportunities in these rapidly changing contexts.

So if it's really so important, why is it underappreciated and why hasn't it been part of philanthropy and part of strategy? Well, as we saw, it can be a little bit uncomfortable, right? It's not the sexiest thing. It's not nearly as interesting as the really exciting ideas. And people don't even know where to start. We also find that philanthropists don't have the capacity themselves to work with non-profits on capacity. How do you assess these organizations, what are the kinds of questions that you ask? And I certainly found this with my own team and with colleagues at Hewlett. So that's where the handbook "Integrating Capacity and Strategy," came from. It's really meant to make it easy, saying "look, anybody can do this." Here are some basic tools; here are some conversation guides to get you started. Here are the kinds of things that you look for.

There are really just four key takeaways: one is that capacity is part of strategy. It needs to be – it should be integrated from the very beginning when you're looking to achieve impact. There has been lots of work done around goals and theory of change, what was thought of as strategy, programs and projects. But really bringing in capacity from the beginning is part of that.

The second thing: so what does that mean? What are the elements of capacity that we're talking about? And we looked and talked to lots of people and read lots of things and came up with these 14 basic elements of organizational capacity, everything from strategic ability to communications and partnerships and legal compliance. And said look, every organization needs to be good enough on these things to keep the lights on, to make payroll, to, you know, stay legal. And then depending on what they do or what their strategy is, there are a few things that they need to be great at. And so when you're talking to a policy advocacy organization, you know, it's really helpful to know that they're good enough on these things but then you know, there are a select sort of differentiated level of things that are what gives them that performance capacity and that's where it's much more helpful to focus your attention, focus the conversations and pretty rapidly, you'll have a much better sense of how things are going there and where they might need some support to shore those things up. Same thing for all these different organizations. There are going to be different levels of higher capacity that they need depending on what it is that they do.

**Alexa Culwell:** This is outlined in the handbook in a lot of detail, too.

**CR Hibbs:** The idea is: not everybody has to be equally great at everything and that's very important to know from the beginning, and figure out where you need to target depending on what the strategy is and what you're trying to accomplish.

The other thing is: what is the culture of engagement so that you can have these honest conversations and that you can co-create this work with the individuals and organizations that you're working with, which numerous studies have shown is really the cornerstone of good grant making and how you build that trust.

And balance it. We've heard this morning, you've got to be – what was it, a control freak. And sometimes that can backfire, so how do you do that in ways that you're going to have the most productive outcome and reach the goals that you're trying to reach.

And then finally: do what you all are doing here and that is invest in your own capacity. The grantees are like “oh no, one more thing that I have to do” and well, “yeah.” But they also need to get better and to know what they are doing and how to do that. So we're going to pause and just get a sense of is this resonating with your experience. And if you have any thoughts on fostering honest conversations and then we're going to turn to Alexa's framework.

Audience member: In terms of Hewlett's kind of miss of the capacity issue in their grant making, what was the feedback loop and how long did it take to correct that? And the second question would be – second of two – is that systemic to foundations? They approach the topic more strategically than really getting into the issues that you have just been talking about capacity.

**CR Hibbs:** You know, as you all know, foundations are such idiosyncratic animals and some have supported capacity for decades and are really good at it. I think program people at foundations were hired because of their substantive expertise in a certain area and their passion about certain things and ideas. But most of us have never run an organization, most of us – there aren't trainings for, you know, new program officers – or there are but it's about legal due diligence and it's mostly taught by thematic experts and I think that was true at the period that I was at Hewlett and it was that time in philanthropy when it was all about the strategy and strategic philanthropy and investing.

I think capacity got a real backseat. We also partnered with our fantastic organizational capacity program with Jen Retay, who many of you know. But they're smaller chunks of money, the – some people really said okay, this is going to be helpful and I'm going to go for it and do this and others, you know, it just wasn't part of their plan.

**Alexa Culwell:** This is a major trend of venture philanthropy foundations, DRK (Draper Richards Kaplan), New Profit, and Edna McConnell Clark in NY, which have much more of a lens around strategy and implementation capacity. So it's a newer trend in the sector and they structure themselves more like venture capitalists where the due diligence is deeper in these areas. And then you'll get the Hewletts which are a little bit more of a traditional model. When you think of the Hewlett Foundation, it's been historically run by an academic, where they're really interested in policy, advocacy, and ideas. And I think there's real space for both but you have to know what you're blind to because the venture philanthropy folks tend to have a blind eye to policy and advocacy and how you actually scale.

Any other thoughts; what resonates before we move on?

**Different audience member:** What resonates with me as an investor is the best investors I've ever met in my life are as willing to talk about their failures as their successes and you have to have a culture in the investment firm of talking about your mistakes and anything you invest in, a company, a startup or a growth company, they have to be talking about what's going on negative in their firms too and to create that culture of honesty.

Investing in non-profits: you're doing good, you're changing the world, it's all positive and it's difficult to have those conversations. But you have to.

**Different audience member:** I've done a lot of grants in my life and I think the challenge always is how do you build the relationship? A lot of times when you grant as an individual, you grant based on a personal relationship. That might be how you start, you know someone in an organization, you decide to invest. But the challenge is all of a sudden you start getting to higher levels. So if you grant at 10,000, it's not that much money for a high net worth person. But when you start getting to a \$25,000 or a \$50,000 grant, then you're talking real money to yourself, right? But for me, what has always worked is if I can get the organization to write down what they want to do and get some tangible deliverables in one or two pages. If they can't give it to me in one or two pages, I know they are not clear in how they are going to implement.

**Alexa Culwell:** Interesting. That's a great strategy.

**Different audience member:** We do have a matrix that is kind of similar to yours but when it gets to leadership and governance and trying to measure those and it relates to the being transparent, you think you know someone and having honest conversations but there are some very interesting people you meet that are very provocative and great salesmen in all of this. And you're drinking the Kool-Aid – and this goes all – across all age groups: young people who are such go, go, go people and you want to support them and support them but you know – so for us to be able to value their integrity is a question that we have to have. And so you have to at some point trust your gut as to what they do. Now you certainly – you get references but, young people haven't done this work before and you want to encourage the young people.

**Alexa Culwell:** But what a good idea. I've been called by venture capital firms on investments in a for-profit that a colleague founded but when you're in non-profit investing, do you actually do reference checks on the leaders? I don't hear about that very often.

**Different audience member:** My biggest failure was when I did not do that. Because it was referred to me by someone who was credible.

**Different audience member:** If I did a show of hands here, probably 80% of hands would go on this person who said you need to do this and you need to write this check and it was a prestigious institution, I did it for a particular program. But then bad stuff happened and then I waited to criticize. I waited way too long and it failed.

**CR Hibbs:** But it's so interesting how much we learn about. What they could have done differently, about what we could have done differently. In the handbook, there's a set of questions that you would use to probe. What's a gold standard of performance, what are some red flags to watch out for, where are additional references? So it's really practical in that.

**Different audience member:** Thank you for writing it.

**Alexa Culwell:** We're going to show a quick video and then we'll have lots more time for discussion.

I've been a foundation CEO and an advisor to philanthropy and to social sector leaders and often the calls I get are about people's problems, problems with performance. "I've made this investment; the leader can't seem to move the ball; I don't understand why this program isn't scaling; the board and management are at odds; I went on to this board, I thought it was going to be this happy thing...; I love this leader but in fact we're at odds; this doesn't seem to be going well and yet my philanthropic investment is now tied to this thing..."

And as I've listened to these problems in my own practice over the years, often those are the symptoms of something deeper which is a non-profit's ability to do good strategy that integrate capacity. So I developed a framework and as CR and I were looking at her book and this framework, there's just so many complementary pieces to it. It just gives you kind of another way to think about it. But when you're thinking about how you probe on the strategy of a non-profit: what are the elements you're looking at and how do you think about those 14 things and kind of the order of them?

So she has a wonderful framework. And that you have to figure out that map to that. And I've got a complementary way of thinking about it and so I'm going to start by just showing you this video. And we're so high tech here at Stanford, it's got to be kind of done this way. And I'll walk you through some of the key elements.

**[3' video: <http://philanthropyfutures.com/video-framework-for-greater-impact/>]**

**Alexa Culwell:** So hopefully you'll see the connection there. Often the symptoms of the problems are up here, right? The plant's withering and we really need to go down and begin to look at how healthy the soil is and whether the container is sturdy enough to hold the ambitions of the organization. This video is meant to begin to help non-profits think about that.

As investors, it's really relevant to all of you in the room as we think about what non-profits need from us. Because what often happens in philanthropic investment is we get really excited about investing and we forget how critical this piece is. And if we're not going to do it, who is?

We tend to want to fund the expansion of programs or we tend to want to maybe help attract this leader that we think will be perfect but we begin to realize that actually creating the fundamentals of the organization is a critical capacity that costs money. And so just to quickly comment on various pieces and then we'll open it up for discussion.

Peter Thiel talked about how he's always evaluating founders. He's evaluating the leader and we just had a great conversation about that. So no matter how shiny and wonderful your strategy is or how much you've invested in it, even how much you've really figured out your capacity is needed, if that leadership and culture isn't in sync with the strategy...it both needs to be positioned for success but the leader actually has to be aligned with the strategy. There's often a mismatch of leaders and what actually has to happen in the organization. You may have a leader that's perfectly capable of running one kind of organization, that's why you were excited about recruiting her, but now you're potting her into a different context and is she able to do what that organization needs done? So I think sometimes we get great endorsements for people but we've got to think pretty strategically about whether they can do the thing – the new thing that needs to get done. So that's critical.

I want to talk now really about this left-hand side and just elaborate a bit more on vision and theory of change. I talk to a lot of non-profits who really aren't clear on their vision. They're clear often on their programs and what they're delivering but they're not always clear on the future state they want to see and so they don't really have that long-term orientation. So when you're investing in a group, I think it's really important to probe about what's the imagined future state you're envisioning and more importantly, is that something that resonates?

We're dealing with really complex social and environmental problems. No one organization is going to solve that, but do they have a vision that looks out and imagines the solution and then are they clear about what part they'll play in that solution? Because they're unlikely going to be able to solve the problem themselves but will they play this critical role?

You've heard Elizabeth Holmes kind of beginning to allude to this. She's figured out this huge problem and she's a piece of it. She imagines a world with access for health care and she's got a fundamental piece of it that she thinks is going to be disruptive and groundbreaking and already is. So has the organization figured that out?

And then that leads to their theory of change. And a lot of people who come from the private sector have never heard of this word, theory of change, so let me just demystify it a little bit. Theory of change is really a strategy for how you're going to get to intended outcomes and impact. So it's really the theory of how you're going to create change. How is the organization not just going to aspire to create change but how is it practically going to connect what it does to the outcomes and impact it wants to see in the world? And that's where you start putting it through the smell test.

If someone says we're going to do this and people's lives are going to be transformed. Ask: what is that transformation? How are you measuring it? Is a child's life being transformed because they hit proficiency on third grade reading or is it being transformed because they graduated from college? Which piece is your program connected to? Oh, your program is connected to helping kids read better and hit proficiency. But how do you know that helps them with college? What is the link between what you do and that outcome? So really probing on the logic, the fundamental logic of what they're doing and the outcomes and metrics that they're going to deliver for that.

Most non-profits should and need to have a clear sense – and this is where capacity often gets left out but I think it's integral: what capacity are they going to need; who are they targeting; what are their strategies; what are the goals and metrics; what are they tangibly saying they're going to get done, and does that all add up to some outcomes and metrics and impacts that make sense? And what are the time tables they think they're going to achieve this by? Because sometimes you wake up and gave a lot of money and then realized oh, that impact was ten years out but they never told me that, you know? Whereas if you've got a clear sense of what some of the near term leading indicators are going to be, you know what you're investing toward and that's all clear.

And then we've got this side, which is all about what I call the numeric narrative of the non-profits. Non-profits tend to be really bad at financial and economic narratives. In the private sector, you often will describe your work in financial or numeric terms. You lead with valuations and profit and loss and what the economics of the business are and how it makes money. In non-profits, we tend to lead with program narratives and there's a real deficit of financial or economic language. So really getting a non-profit to articulate its business model and its metrics is important as you're probing and potentially even investing in their capacity to do so is pretty fundamental.

There's just two slides on non-profit business models I'd like to show which is it takes a while from startup, proof of concept, expansion and sustainable operations for a non-profit to actually figure out a revenue mix where it's able to sustain that mix over time. So sometimes they'll get an infusion of private philanthropy but that's not going to help them grow and scale. They've got to start mixing in earned revenue, they've got to



start mixing in some government funding. Reid Hoffman talked about this. What is the economic model that drives scale? He was talking about scale that could reach tens of millions, a hundred million people. There's other kinds of scale that some of us would also just be happy with. Like I just wish it could get to 50,000 kids. But what is the point where there's a reliable revenue mix, where that revenue exceeds the fully allocated operating costs?

Another issue is that non-profits are often not fully transparent or don't have the capacity to do the full analysis of what their program costs. I know that can be a little mind-bending if you've been in the private sector but you can't scale a program if you don't know what it costs, but non-profits try to do that all the time. They forget to count him, her and him who all spend all their time on this program but it never actually is incorporated into the cost because they're in a different department or – so you don't ever fully know the cost. And then we forget that cash reserves and R&D money are really critical to non-profits as well. They need cash reserves for cash flow, they need cash reserves for times when aspects of their pieces of revenue may encounter choppy waters, the economy goes south, suddenly people are not able to fulfill their pledges at the rate they thought. And non-profits need flexible capital to adapt and innovative.

And again, sometimes philanthropy forgets that funding a healthy business model means being willing to fund the whole thing, not just pieces of it. And then I've asked well, what do we know about the perfect business models and non-profits? *Forces for Good*, a book that came out about seven years ago looked at a bunch of well-respected large non-profits all across the country – Teach for America, City Year, Share our Strength, and mapped what their business models were for scale. And what they found is each one had a different answer. There was no one solution.

But they also found that all of these non-profits had had to iterate and evolve their way to the right business model, which actually isn't any different in the private sector. You know, you might start off with your freemium model and then you're working your way toward a profitable venture that makes sense. Non-profits can be similar.

And then this issue of metrics—goals and metrics in the sector. Do they have clear goals and do they have metrics that make sense for their organization, that have time horizons attached to it, that align them internally so that the internal organization knows where it's headed but also align with you as the investor, that you feel comfortable with those metrics so that when they report back to you, those metrics are sufficient. So often in this honesty gap that we find, investors come back and say well gosh, what'd you do with my \$100,000? And they say well, here's our metrics and you know, you have to be ready to either accept those or help them evolve them to be ones that would be acceptable given the level of investment. So getting aligned internally and then getting aligned with you all. And then being willing to help them potentially invest in the capacity to track that data. Non-profits are slow to have robust data systems. I was just part of a non-profit that ran a campaign to build its capacity and one of the big investments we made was in data capacity. And we went back and told our donors that was one of the line items we were spending their money on, but boy were they happy when we had great metrics to share about the rest of the organization and what it was doing.

Some of the implications for investing, probing on the vision, really understanding the logic of their theory of change, really understanding what their economic model is. How are they sustaining, how are they moving beyond your investment, especially if it's a startup? You're the first money on the table or one of the early

investors and are their goals and metrics aligned to things you think make sense in terms of reporting back and advancing the organization.

Okay. More conversation, reactions, experiences. What resonates with this, where have you encountered this, or what other questions you might have? Or things that are dissonant as well, we'd love to hear that as well.

**Different audience member:** I often pick the small to medium sized, so up to \$10M in annual revenue charity. So it could be a charity of a million or up and what I find quite consistent is that it's very lonely at the top for the executive director, if that's the title, because they have a certain rapport with their board which often is more presentation focused than decision-making focused. And so when they have a problem and they don't know what to do, sometimes they don't feel comfortable bearing their souls in front of the board. So one of the first things I say to them when I approach them is "our conversations will remain private, I want you to know that. I have absolutely no objective here to tell anybody about what we talk about, even if I know a board member." And what that does is it calms the whole experience down and over time, I find that they tell me everything I want to know because it's lonely at the top and I am a willing and interesting party who is there to support them. And so I don't have to do quite as much probing because it often comes to me. And then I find out organizational capacity issues, what I – I find out timing problems, I find out what is the community's response to yet another fundraiser, you find out all the problems they have because they really don't have anybody else to tell it to. Sometimes they're just trying to impress their board and keep their job. So it makes it easier on me to just let them talk sometimes and just be that willing ear.

**CR Hibbs:** And I'm sure it's a huge relief for them too and how do you foster having those conversations and part of it is knowing it's a safe space, you know –

**Audience member:** It may take me two years to get them working on something and so we have to get that understood.

**Alexa Culwell:** What areas do you tend to focus on in your philanthropy?

**Audience member:** Lots of social services, some land conservancy. It's really fairly varied.

**Alexa Culwell:** So the capacity issues can be –

**Audience member:** Huge. And what I consistently find is that the board itself rarely puts the time in to making a good hiring choice with the skill set that the executive director requires to be able to cover the bases. What happens is the board is busy? Most of them are still working; they pick some poor person who might have extra time but might have never worked in their entire lifetime and so they make that person in charge of the hiring plan to find a new executive director, so – and it's rush, rush, rush and often times they just find the first available, credible person. If the board is not sufficiently well-engaged to make a really quality search out of this, you are just dead in the water. And so one of the things that always comes out is lack of engagement within the board. And how does this executive director even get them to show up at meetings and participate and most are just bobbing heads. So hiring, poor hiring, poor quality decision making is really the issue.

**Alexa Culwell:** Other questions, thoughts?

**Different audience member:** Well, this is a question more about how particularly the grant making space is continuing to evolve. My understanding is that there's over two million non-profits in the United States today.

That's a statistic I heard recently. I don't know whether you would agree. And I have to assume that 50% of them are small.

**Alexa Culwell:** Yeah, the majority like have no staff or are run by volunteers.

**Audience member:** And so often – and so I guess what I keep waiting for – and maybe it's happening and I'm not aware of it is it just seems like there's such an opportunity for donors and sometimes these are foundational donors of scale to be really promoting a funding model that says you five organizations complement one another and are ultimately working on the same goal, it's not going to happen unless you work together. We're only going to fund you if you work together. And I've heard of pockets of that happening and personal example of something the Packard Foundation's done about land conservancy, but it doesn't seem like it's a really – it's necessarily a trend and I'm just – it seems like it's a missed opportunity.

**Alexa Culwell:** Yeah, the Packard Foundation – if you're local, the Packard Foundation's actually sponsoring a workshop on non-profit mergers and acquisitions. I think it's next week. CR may have some thoughts on this. I know there's a foundation in Arizona that's now totally dedicated to how you think about partnerships and acquisitions and mergers. You're talking more even about the partnership piece which is people aligning and the –

**Audience member:** It's really the collective impact model.

**CR Hibbs:** Yes, exactly.

**Alexa Culwell:** And so that idea is it's mostly a place-based idea but you could put it around issues too. That in a community, key actors are coming together who are key to solving a community problem and they're agreeing to the same metrics and a set of strategies where they all participate toward the same goal. And that's really hard. I mean, it's a cat herding kind of activity. But there's several hundred communities now engaged in those kind of efforts and there's a consulting infrastructure in this country that's actually now forming to support those communities. We have an effort here in San Mateo County, there's an effort in Marin around this kind of collective impact type of approach, more of a partnership and also cross-sector, both private sector and non-profit partners and government coming together.

**Different audience member:** I think the challenge with what you're talking about, which makes sense in the private world and what makes sense to us from an efficiency standpoint, the challenge with that is you have boards and you have people that have founded these organizations that have lived with them and the last thing they want to do is to give it up. That means eliminating jobs. There's not going to be two executive directors and two CFOs and two whatever. Somebody's going to lose their job and inherently, the big flaw in this non-profit world is nobody ever wants to make those kinds of decisions to say "yeah, I'm going to lay off 25% of my workforce because we're going to join with five other organizations," or whatever the case may be. So I think it's noble and it's a good idea and where possible, but to suggest that this world is going to change anytime soon I think is really difficult unless all of their funding dries up and that probably isn't going to happen.

**CR Hibbs:** I think this has been the whole conversation around strategic philanthropy and the fact that, the problems that we're addressing are so big and that philanthropy is a part of that. But we need to channel money into where it's making a difference. And there's been a professionalization of the sector that goes along with it. You're absolutely right, there are I think real obstacles and this, you know, doing good can be

sometimes the motivation as opposed to really having an impact. And so the push in the field has been to develop these metrics and to become more professional and show that kind of impact. But it's been a tension. But I do think it's evolved and is continuing to evolve.

There's certainly this whole collective impact movement really but also one of the important roles that donors can play without going into that whole model is bringing organizations together that are part of a similar ecosystem and they can incentivize that in ways that nobody else can. I think it's also very important in bringing them together over time. And making it clear "look, if you guys can work together and we can figure out where we have shared goals, the pie is going to get bigger. It's not a zero sum game here." And that's a really important and powerful message, right? But the other thing is – I think as donors, we need to realize that takes time, it takes money to support a sort of backbone, you know, somebody who can help coordinate, somebody who can help do that. I mean, that also takes resources and capacity but I think it's a great way to leverage and to scale what we're trying to do.

**Alexa Culwell:** I think when it works is leadership transitions if the first thing a board asks when a CEO leaves is should we be thinking about a merger or acquisition. So some of the biggest mergers you've seen in this sector get triggered when somebody finally leaves their job and then you don't have the egos of the two principals battling it out.

**CR Hibbs:** It's an opportunity.

**Different audience member:** It strikes me that at least here in the Valley, that a lot of not-for-profits are starting to work together but our challenge is we as donors are struggling to come together. I mean, I struggle all of the time. I might put down a big grant but who is following with me? And I think my take away from it is it's hard for us to organize because we all have different ideas and we don't have common interests, but we also can work with organizations to help us figure out what the map is, help them. The capacity building is really around how do we help you frame your message so rather than us making up projects for you, you tell us what is your plan and how we plug in.

**Different audience member:** I think the challenging part too is most non-profits given their size, especially the smaller ones – and it was interesting the point that was just made about there being over two million non-profits in our country – both focus so much on the external versus the internal. And so – and they do that because for them to get the dollar that they're all fighting for, they focus on the external because that's what typically has worked for them in the past and has been able to get the dollars they needed to continue to try to do the programs or fulfill the needs they're trying to meet. And for non-profits to start focusing on the internal, I think it's challenging because there are not a lot of donors that find that really sexy, to say that non-profit's going to spend time building a team, they're not doing any programming, they're just – that's not – that doesn't sell. And I think that until you have donors that step up and say hey, this is what's really important, to everything that you guys just talked about, it's going to be hard for non-profits to change.

**Alexa Culwell:** I've been on a youth development board in the city of a non-profit that struggled for many years and we really needed to invest in our internal capacity to kind of get beyond just surviving and into growing and scaling. And finally the board decided because we were having a hard time finding donors who would invest in our capacity, the board was willing to put some money in. We decided to actually sell off an asset to fund it and it was the best decision we ever made. It was a very painful decision. It was a piece of real estate we owned. We generated some capital, we began investing in fundamental capacity, we invested in a

better – clearer strategy, we invested in defining our program model more robustly and data systems and the organization has grown about five fold since we made those investments. It's been on an incredible trajectory. Went from never being able frankly to raise much money in any given year, we had never had a six figure, let alone seven figure donor and we went to having seven figure donors and completing our first capital campaign and actually buying a building that was twenty fold what that building was we sold, which was a dilapidated Victorian in the Haight and we traded it in for a state of the art former technology headquarters in the Mission. But that was a really interesting set of stressful conversations but we did it and now in hindsight, seven years later, we're really reaping the rewards of that.

**Different audience member:** Closer to the space that you mentioned before, kind of the 1 to 10 or 1 to 20 million dollar budget organizations, one of the things that we found that is kind of interesting as a way of building capacity is potentially creating more leverage and sending the executive directors to let's say not-for-profit management, whether it's here or some other schools or whatever, for \$5,000 or \$10,000 or sending them to a class. They not only get a lot more skills and expand their capacity, but they also create a peer group that truly allows them to solve a lot of the problems that we're talking about before. And I've found – and there's a bunch of us that have found – that actually that's probably the best \$5,000 or \$10,000 spent on any organization because of the impact that it has and the multiplier effect.

**Alexa Culwell:** That's a fantastic – so this same non-profit, we sent our CEO on sabbatical after she raised all this money and completed this round of investments and she went to HBS's executive ed program –

**Audience member:** We've sent 26 people to HBS in the last ten years and it makes a big difference.

**CR Hibbs:** But the other thing too, to your point, I think when organizations and funders can begin to understand which capabilities they really need to carry out the strategy and then focus on those, it's easier to make a case that I need funding to shore up my financial management because you're asking me to do and that means a whole re-tooling. When it's linked to the strategy and what they're trying to do, it's an easier buy and sell too.

**Alexa Culwell:** I'm really glad you brought up this executive education. It goes to the earlier point of reducing the isolation too. They get in a cohort. The Stanford executive ed program, the Harvard Business School one, and there's others – it doesn't always just have to be about Stanford and Harvard, but they happen to run good programs, right?

**Alexa Culwell:** But the quality in the cohort is also what you're buying, right?

**Audience member:** And you can drive it in third party cities, so we've been sending people from Chicago to HBS and then they have a peer group in Chicago that they can meet with and everything else. So it doesn't have to be – they don't have to be in Palo Alto to be, you know, on Stanford campus.

**Alexa Culwell:** That's great. Thanks for sharing that.

**Different audience member:** My wife and I just wrote three checks last year to leadership coaches for fast growing non-profits. We got together with some friends and realized that these things were growing, they needed help and that's another angle/type of executive education is bringing in a leadership coach to help them.

I had heard about – I'd done things like that obviously on the for-profit side. Never done before on the non-profit side but it was a great idea.

**Alexa Culwell:** There's a great study that's out on executive coaching in the non-profit sector and it ends up, it's so pervasive in the private sector, I think it's kind of hidden in the non-profit sector. I didn't realize how ubiquitous it was in the private sector and there's a really interesting study about the need to have more of it in the non-profit sector because in some ways, all the things you have to be the master of can sometimes be even more complex. The job's a really complex job.

**Different audience member:** I have a question about your experience at Hewlett under Paul Brest. You said you identified failures along the way and had a contest to come up with a failure. How often did you – the people sitting in the room – actually agree on what caused the failure?

**CR Hibbs:** Well, it got pretty elaborate actually, the whole annual contest. Within each program, there was first a contest. We agreed and then we'd do these big presentations and then the whole foundation voted. So you presented this to the entire foundation and why you had the worst grant and what you could – and again, it became – at first, it was – started out what was the worst grant and everybody blamed the non-profits. And then Paul was like no, no, no. That was not the point here. This is not about, you know, putting the blame on others, this is like what could you have done differently. What did you learn the most from? It evolved over time but everybody voted and people internally watched it really closely. The vote was live; see how things were going. It really was celebrated and it became a part of the culture.

**Audience member:** And then the information you got from that, how would you disseminate down to your stakeholders?

**CR Hibbs:** It was tricky because obviously you weren't going to share that with the world because also a lot of it was about our own, you know, skills, about our lack of skills around –

**Audience member:** I mean, internally, what would you do to make sure that the whole organization learned?

**CR Hibbs:** The thing about Hewlett is it's not huge. I opened the Mexico office but that was the only office outside of Palo Alto and we came up periodically. We had quarterly all-staff meetings where everybody who worked at the foundation would come together and have these long, intense meetings and the conversations continued and we'd build off all this by saying okay, here's what we've learned. Now let's take that to the next level or not – you know, how would you restructure a certain thing and then go out and do it.

**Alexa Culwell:** I know a foundation in New York that redid their due diligence tools. They were seeing a pattern of some failures in their portfolio and so they went back and they realized it was fundraising capacity, that there was a good strategy in place, a great leader, great ideas, they were building skills to kind of get the organization going in the right direction but ultimately, they weren't able to raise the capital to hit their scale metrics and they began realizing their due diligence tool did not probe deeply enough, was focused on all kinds of things but really not the fundraising capacity.

In their case, the goal was to scale the organization. They were finding evidence-based programs ready for scale. Well if you're going to scale, then there's got to be capacity. If there's a fundraising component that's complementing – usually when you're scaling, you've got some earned revenue driver hopefully (although there are some very large non-profits that scale on private philanthropy). But the private philanthropy piece

can be really important to complement the earned revenue and especially if it's a government allocation or something that's very restricted, where the organization needs the flexible capital to take care of all the other expenses. So they found that and then they went back to their rating tool and their due diligence tool and just realized that they weren't really probing on that adequately and they rejiggered it. So that's where you have to have to redo your system, make sure the system is literally adapted to the learning that you've found. And so they're very good at that.

**CR Hibbs:** And, going back to the Hewlett piece, it shaped grant maker training programs there, it shaped some of the capacity building investment –

**Alexa Culwell:** Well, you wrote a book.

**CR Hibbs:** Yes, this handbook came out of it. But also, looking for the kind of patterns is where it starts to get really interesting and trying to address where there's systems issues that are involved. And it's also one of the great things about bringing grantees together where you can start to see what are the – the challenges that they're starting to share and where those patterns are. And where, for these small organizations, when it comes to capacity, maybe there are certain capacities that the donor can support. For example, a communications specialist that then services many organizations. So there are different ways to scale that.

**Different audience member:** I do have one question and that is: do you have any rough statistics around the issue of if I make a grant to the tune of half a million dollars or a million dollars to an organization and it's over a period of time, do you have a rough sense of how many organizations can replace my revenue when that grant expires? And the sense that we get is, the majority cannot full replace it, or even partially replace it.

**Alexa Culwell:** What would be the budgets of the organizations that you're doing a half a million to a million, what would be their overall budget? Is it 10 million or higher or is it 5 to 10?

**Audience member:** It could be lower than 10 million dollars.

**Alexa Culwell:** The ratios become really important there. The general rule of thumb is don't have one gift support more than 10% to 20% of the overall budget. Then you also need to look at their private philanthropy. So, let's say the budget is ten million and private philanthropy's five, so meaning five million of it they get through contracts, maybe school districts pay them for a school program but then they've got to raise five in private philanthropy. So now you're trying to figure out your gift and so a million gift would be a 20%. So you'd have to then judge if they can replace that 20%. And if it's multi-year, it might be then even a lesser percent per year. And then, the metrics you might want to look at is what's their new donor pipeline, do they track that? Are they willing to report it? They don't need to tell you all the names but who are their qualified leads?

One non-profit I advise – I just was looking at their donor pipeline because we're looking at their business model really closely and they have a fantastic thing they do with their board. They rate their pipeline, they rate how far they are toward making a gift, what level the gift will be at, how sure they are they're going to get it, they're highly accountable for replenishing the pipeline and it just shows that they've built a lot of capacity. If you don't see that capacity for replacing it, then you shouldn't be investing. So just asking them how they track it, what are their fundraising systems and how are they going to demonstrate that to you. It's a pipeline analysis.

I can genericize an example for you from a deck that I have that shows that if you're interested in that. Just to give you like a sense of what it would look like.

**Different audience member:** But I think to your point in the video with the flowerpot, oftentimes we look at funding a program because we think it's a good idea. But what we don't attach to that is an associated other strategy about raising money in addition to our money, right? We sort of think well, it'll take care of itself or it won't take care of itself and statistics show that it will not for the most part.

**Alexa Culwell:** And is their earned revenue stream volatile or reliable? There's a non-profit I do a lot of work with in Oakland, they have a stream of money from the California government to help emancipated foster youth. They've gotten it written into legislation in California. They know that they're – and they know they're like the only provider in the state, so they pretty much win the contract every time. It's written into legislation, it's earmarked, it's therefore highly reliable, although anything can happen. And so – and they're disproportionately – they're disproportionately dependent on that stream of California government funding. And so they really need some private – flexible private philanthropy to kind of help stabilize against that. For every model, you have to kind of look at the components and ask what's the certainty of this stream, what are the things that disrupt it, what are the things that keep it stable, so just breaking it apart and asking the questions one by one.

**Ted Janus:** CR and Alexa, some wrap-up statements here.

**CR Hibbs:** I would just add that one of the things as a donor, when you know you've got an organization that has really strong organizational capacity, that's when you can let go and you don't have to be in control. You want to get to where you can give that kind of support.

**Alexa Culwell:** You guys have been great. Thank you for sharing your failure stories.