

FOSTERING INNOVATION AND EFFECTIVE PERFORMANCE THROUGH STRATEGIC PHILANTHROPY

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Introduction



- Changing context of philanthropy
- Social Innovation and Change
- Opportunities and Challenges
- Implications for leadership and practice in philanthropy, NGOs, and public policy

Basic Argument

- The engagement of foundations in public policy is changing due to several factors that are providing new incentives for foundations and individual philanthropists to directly or indirectly engage in the development of innovative solutions to urgent public problems.

Restructuring of Public Services

- **New Public Management**
 - ▣ Greater competition in services
 - ▣ Diversification of policy tools
 - Tax credits
 - Vouchers
 - Use of bond financing
 - Public-Private Partnerships
 - Contracting for services
 - ▣ Increased performance management
 - ▣ More responsiveness to communities and citizens

Rethinking the Public Sector

Devolution and Decentralization

- ▣ Empowering local citizens
- ▣ Community and citizen engagement in local services
 - Co-production as a strategy to improve services
 - Joint production of services between public agencies and NGOs or citizen volunteers
 - Shared decision-making between public agencies and nonprofits
 - Participatory budgeting
 - Local health councils
 - Benchmarking public services by citizens

The Emphasis on Performance

- ▣ Emphasis on Performance Management and Evidence-Based Practice in the Public Services
 - Performance Contracting
 - New pressure for an outcomes orientation in the public services including more rigorous program evaluation
 - Results-oriented Financing

New Approaches to Philanthropy

- Venture Philanthropy---Letts, Grossman and Ryan
 - clear goals, data-driven strategies, heightened accountability, and rigorous evaluation.
 - An overall outcome orientation
 - Longer term grants including for operations
 - Development of a long-term relationship between funder and grantee
 - Focus on innovation and new program development

New Approaches to Philanthropy

- Huge growth in the last 20 years of philanthropic support for more outcome orientation—the hallmark of strategic philanthropy.
- ▣ Many new organizations in the world of philanthropy supporting greater outcome orientation and
 - Center for Effective Philanthropy
 - Grantmakers for Effective Philanthropy
 - Consulting firms such as Bridgespan

New Approaches to Philanthropy

- Use of the internet to provide more information to donors and the public on nonprofit organizations
 - Guidestar
 - Charity Navigator
 - Give Well
- In the private sector, for example, there is a growth in socially responsible investing due, in part, to investor pressures.

New Approaches to Philanthropy

- The public sector is facilitating the development of new approaches to philanthropy because of the need to be more efficient with the allocation of capital due to austerity measures, and the need to be more effective and operate in partnerships across boundaries.
- The growth of NGOs and the competition for grants and donations has encouraged a search for new approaches to philanthropy and the third sector.

Broad Interest in Social Innovation

- Social Innovation can be defined as new and disruptive practices and policies that may lead to improved policies and practices.
- Many social innovations are offered by NGOs for several reasons:
 - NGOs offer flexibility
 - Quick start-up
 - Low initial investment
 - Co-production and participatory component including volunteers
- Social innovations are also offered for-profit social enterprises

NGOs and Social Innovation

□ Service Delivery

- Government contracting with nonprofits for new programs
- New organizations with novel and effective programming models.
 - **Nurse Family Partnership**---entirely new organization with a creative program model in supporting the development of young infants. Very strong outcome orientation. Extensive funding by foundations and government
 - **Kiva** uses crowdfunding to provide no-interest microloans to people in 93 countries who want to build better futures for themselves, but who the traditional finance system ignores.

NGOs and Social Innovation

- New innovation in an existing organization.
 - ▣ Christian Family Service Centre (CFSC) created an Urban Oasis program. CFSC is a longstanding organization that created a new innovative program.
 - ▣ Bangladesh-based BRAC, one of the world's largest NGOs by staff size. Employing more than 100,000 people in 11 countries, BRAC runs a range of services and social enterprises that reach 138 million constituents, mostly in rural areas. Very entrepreneurial.

Social Enterprises and Social Innovation

- **BRAC** is a good example of an organization that mixes nonprofit and for-profit elements
- **KIVA.** Microcredit organizations providing loans to artisans and farmers to promote higher income and entrepreneurial activity.
- Artisan cooperatives
- Many other examples of mixing of nonprofit and for-profit characteristics
 - ▣ Fits with the emphasis on performance and trying new program models.

Success Factors for Innovation and Change in NGOs

- Leadership
- Appropriate governance structure
- Collaborative approach to decisionmaking and program development, both internally and externally
- Resources
- Space in the organization to develop and promote new ideas and programs

Role of Foundations and Philanthropists in Supporting Innovation

- The innovative potential of foundations is one of the most discussed issues in research on foundations.
 - ▣ Foundations as relatively autonomous organizations, compared to other organizations such as public agencies or even local NGOs that have their own assets and thus are not dependent upon external funders--- thus giving them the opportunity for innovation and experimentation.

Role of Foundations and Philanthropists in Supporting Innovation

- In practice, though, many foundations are not particularly innovative in their grant-making. The reasons include:
 - ▣ Relatively small scale, including a lack of staff
 - ▣ Longstanding relationships with existing local agencies
 - ▣ Concerns about impact and controversy
- Individual philanthropists may not be aware of opportunities to support innovation.

How Can Foundations and Philanthropists Promote Innovation?

- Investments in capacity
 - ▣ Good governance including board training and development
 - ▣ Overall administrative infrastructure
 - Professional development of staff and leadership
 - Ability to evaluate and test innovative programs.
 - Logic models, theories of change and appropriate strategic planning
 - ▣ Physical plant capacity of a local social innovation.

Support for Collaboration and Network Building

- Provides leverage and offers an opportunity for new program development
- Foundations can help create intermediary organizations to promote collaboration among local NGOs and information sharing.
- Requires careful attention to program and organizational design.
- Many social problems are complex requiring extensive collective effort and decisionmaking.
- This issue is especially important because it can address one of the common complaints about strategic philanthropy: its tendency toward top-down decisionmaking and overly simple models of impact and causation.

Thinking Creatively about Philanthropic Assets

- Impact investing has attracted widespread interest in the philanthropic community.
 - Builds upon the venture philanthropy idea advanced by Letts, et al.
 - Thinking broadly about foundation assets and the potential to spur innovation and have a greater impact
 - *Program Related Investments*. Often loans to local nonprofits for specific projects.
 - Ford foundation has provided capital to local nonprofit community development organizations

More Philanthropic choices

- A clear trend across the world is for more choices in philanthropic instruments
- ▣ Social Venture Partners and its related organizations around the world including in [Hong Kong Social Venture.](#)
 - Opportunity for philanthropists to invest in local start-up social enterprises, both nonprofit and for-profit.
 - Examples include: [Playtao Education.](#)
- ▣ Donor Advised Funds

More Philanthropic choices: Hybrid Models

- *Social Impact Bonds*. Complicated Public-NGO-Private partnerships. Designed to attract private investors to a performance based project and introduce new performance incentives into service delivery.
 - Private investors, foundations, and philanthropists can play a key role in these projects. Designed to support effective services.
- *B Corporations*. A certification process for socially-minded businesses.
- *Benefit Corporations*. A new legal form that is a limited profit business. Other variations around the world including Community Interest Companies in the UK.

Supportive Public Policies are also essential

- Philanthropy can be key to innovation but NGOs and social innovation thrive in circumstances of supportive government including:
 - ▣ adequate funding
 - ▣ Supportive regulatory environment
 - Transparency in government
 - A willingness of both sectors to work together for mutual benefit.
 - Leadership by the public sector can help foster civic engagement

Sustaining Social Innovation

- Many new local organizations ---both NGOs and for-profit social enterprises---are small and under-capitalized.
 - Many NGOs are all-volunteer organizations or have small staffs; they lack significant capital as well.
- With a small size, sustainability of services including volunteer engagement can be problematic.

Sustaining Social Innovation

- Size and resources also affect the ability of social innovations to scale their organizations
 - ▣ Scaling requires capital as well as proven effectiveness, at least at the initial stage.
- Key role for philanthropy and government
 - ▣ *Philanthropy* can provide the capital to help grow and scale and organization including the capacity to evaluate and track programs.
 - ▣ Government can also support the capital and overall resource needs of local NGOs and social enterprises

Sustaining Social Innovation

- NGOs, themselves, also are key. NGOs also need to invest in their own capacity including good governance.
 - ▣ Effective governance should also include building community support for the organization including engaging volunteers in the organization
 - ▣ Collaboration among NGOs can also be helpful in pooling staff and volunteer resources and building broader community support.
 - ▣ Sustaining and scaling social innovation also requires resources and expertise, so NGOs also need to ensure that their governance structure, including board composition, is matched with their resource and capacity needs.

Scaling Up and Collective Impact

- “Going to Scale” draws keen interest from philanthropists and foundations.
 - ▣ Intersection of the interest in greater impact, collaboration, and social innovation.
 - ▣ Going to Scale though requires substantial capital, proven programs, and effective social networks at the local level of NGOs, public agencies and often for-profit businesses.
 - ▣ Philanthropists and foundations can be key to mobilizing the considerable effort and resources required for collective impact.

Strategic Philanthropy and Innovation

- Strategic philanthropy has usefully called attention to the lack of many foundations to outcomes and evaluation.
- Results-oriented financing as exemplified in social impact bonds, and other “pay for success” funding models is likely to continue to increase in emphasis.
 - ▣ Many foundations now try to hold their grantees to short-term performance metrics.

Strategic Philanthropy and Innovation

- This outcome orientation can also encourage a conservatism in funding choices to support proven programs rather than new innovative start-ups.
- Thus, philanthropists also need to support new program start-ups and genuine innovations that may demonstrate results over time. Many social problems are complex and their resolution may require trial and error and substantial time in development and implementation.
- The search for innovation may also be disruptive and not necessarily the most appropriate course of action depending upon the problem.

Concluding Thoughts

- Foundations and individual philanthropists can play a central role in fostering social innovation and improved performance in the social sector.
- Philanthropy can be especially important to supporting the conditions conducive to social innovation and effective performance.
 - ▣ Capacity building and building institutional infrastructure
 - ▣ Governance reform and development
 - ▣ Support for collaboration
 - ▣ Source of capital
 - ▣ Advocate for public policies to support the social sector

Thank you

I welcome questions and comments.

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