On Risk

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As part of their overall strategic deliberations, all foundations must at some point tackle a fundamental question: How much risk are we willing to take? (Here I mean *programmatic*, not investment, risk: How prepared are we to make a grant with a significant chance of not achieving its main objectives?)

The answer depends on many things. Each foundation has the obligation to decide for itself what strategy will best serve the public good. Some of the factors involved are outside the foundation's control: the organization's mission, donor intent, manner of formation, asset size, geographic focus, environment, existence of other philanthropic organizations, among others. Others are variables the foundation itself can influence: principally the size, skill set, and expertise of its staff and the composition of its board. One foundation may decide that its role is to sustain the not-for-profit organizations in its community; another may fund cutting-edge biomedical research. Appetite for risk is both an element in making such decisions and a consequence of them.

In the case of the California HealthCare Foundation (CHCF), we were born in 1996 as the smaller of two foundations created from the conversion of Blue Cross of California. Our first task was to monetize the stock of WellPoint Health Networks (the for-profit company created from the conversion) and to transfer 80 percent of the proceeds to our sister foundation, The California Endowment. The endowment signaled early that it intended to take a broad view of health care and focus on local communities throughout the state. Given its size and orientation, our founding board encouraged CHCF to take on at least some grants that were riskier than we might have liked had we been operating alone. This fact – that the organization has grown up along with, and in the shadow of, The California Endowment – has continued to play an important role in the consideration of our appetite for risk.

The composition of our early board also influenced its approach to risk. Many of the members had management and governance experience in the corporate world. After the debacle of Enron and the institution of Sarbanes-Oxley, corporate boards were being required to estimate their risks systematically. CHCF's board similarly urged us to develop a systematic characterization and estimation of the "risks" in our grantmaking. It was an expansion of the way we thought about our grants, but one we believed prudent and necessary in

FIGURE 1: ELEMENTS OF RISK

Definition of Risk: probability of failure to achieve desired outcomes

- ***Execution Risk***: How likely is the project to achieve its objectives?
  - Complexity
  - Challenges
  - Strength of project management and operations capabilities
- ***Environmental Risk***: How great is dependence on features of the environment that are out of the direct control of the team?
  - Political instability or lack of political will among policymakers
  - Major changes in law or policy that may affect the project
  - Dependence on the success of related projects, events, or grants
- ***Reputational Risk***: Could the project endanger CHCF's reputation as neutral, objective, and nonpartisan?
  - Controversial topic or project
  - Implications of grantee failure for CHCF's ability to achieve its objectives

the aftermath of the meltdown of companies whose risks clearly had not been well understood or managed. Our objective in making risk an explicit dimension of our grantmaking was not to minimize it; rather, we concluded that risk needed to be assessed, mitigated, and learned from.

RISK ASSESSMENT

> *A ship in harbor is safe – but that is not what ships are for.*
>
> *– John A. Shedd*

We realized early on in this endeavor that we could not generate an overall estimate of the foundation's risk taking without a more explicit definition of what we *meant* by risk and some way to assign values to individual projects and initiatives in order to develop a more systematic view. In the fall of 2007, a three-dimensional risk assessment framework was developed and incorporated into our peer review and board approval processes. The framework included a separate assessment for environmental, execution, and reputational risk elements. Each grantmaking project above $150,000 received an overall risk designation. The current version of this framework and their definitions are displayed in Figure 1.

As an illustration, consider a recent grant made by CHCF to the Annenberg School for Communication & Journalism at the University of Southern California. The grant created the California Healthcare Foundation Center for Health Journalism. Its purpose is to support the publication of in-depth reporting on state-focused health care issues. Its approach is to forge partnerships with traditional and emerging media and temporarily augment their staff with journalists who are experts in health care reporting. The project has already produced some striking results[1,2,3]. A four-page write-up presenting the proposal to the board concluded with an assessment of the risks associated with the grant (Figure 2).

FIGURE 2: RISK RATING / ISSUES FOR DISCUSSION

The overall risk of this project is medium.

Risk Rating	*Low*	*Medium*	*High*
Execution		***X***	
Environmental		***X***	
Reputational			***X***

- ***Execution Risk:*** The news business is in a state of turmoil and transition. Where in the past many journalists would likely not accept the notion of working with a foundation-funded effort, some are now open to it given the decline in resources. CHCF is particularly well-placed for this effort because its nonpartisan approach in many ways mirrors the way journalists see their role in society. However, as newspapers are focused on survival, many may be focused on the core business and too distracted to engage. Also, reductions in ad revenue translates into less space for stories, which could make placement more difficult.
- ***Environmental Risk:*** Traditional means of news distribution are being disrupted. Newspapers have served as an agenda-setting mechanism for most other media, including TV, radio, and on-line news. It would be important for the center to pay close attention to the shifting landscape and work with all players in the media space to assure its content has wide impact, as well as build its own hosting and dissemination abilities on-line.
- ***Reputational Risk:*** The industry is in survival mode and philanthropy is seen by some as a life raft. Yet it is entirely possible there could be a backlash against this kind of activity. Also, there is the potential the center could produce work critical of a CHCF grantee, partner, government official, or agency with which CHCF is working. That could harm CHCF's ability to work with those organizations. An advisory panel comprised largely of distinguished journalists would support the independence of the center and mitigate the risk of backlash against the foundation for the center's reporting, and also mitigate the potential risk of charges that CHCF was unduly interfering with the editorial decisions on the center.

FIGURE 3: DISTRIBUTION OF APPROVED FUNDS BY RISK

FY 2008-09 Board-Approved Projects ($26.3M in 25 projects)

	Program Area*			
RISK	**IFTU**	**BCDC**	**MPM**	**Total**
Low	0%	0%	17%	**17%**
Medium	9%	31%	4%	**44%**
High	33%	1%	5%	**39%**
Total	**43%**	**32%**	**26%**	**100%**

* **IFTU** = Innovations for the Underserved
BCDC = Better Chronic Disease Care
MPM = Market and Policy Monitor

At our board's annual retreat, it reviews grantmaking for the previous year and provides guidance for the year ahead. As part of that review the board considers staff reports on the grants devoted to each of our program areas and other efforts such as research and evaluation. Part of that review also considers the overall risk assessment of the grants, which it has approved. An example of this roll-up can be found in Figure 3.

RISK MITIGATION

> ***It's tough to make predictions, especially about the future.***
>
> ***– Yogi Berra***

We recognize that our risk assessments are far from scientific and necessarily somewhat subjective. But during our peer-review discussions of each major grant, the risk assessment focuses considerable attention and debate on this issue. It has become a useful way to identify what could go wrong with a grant and how we would attempt to limit the risks.

Accomplishing this requires not only advanced planning, but often *flexibility* as well because of our inability to predict the future.

Some foundations' strategies are based on long-term deep involvement with local communities and decades-long efforts such as economic development or the transformation of community infrastructure; ours is not. We focus almost entirely on the health care system and its financing, organization, and policy oversight. And our experience has been that economic and policy developments in this domain are extraordinarily difficult to predict beyond a year or two. Community health centers and hospitals are, for instance, subject to staff turnover, changes in reimbursement rates, new laws and regulations from every level of government, economic downturns and upticks, among others. As a result, we tend not to fund many long-term academic studies of interventions, especially when the study design involves comparing "intervention" and "control" groups that remain uncontaminated.

Of course, there is no one "right" number for foundations when considering their risk profile. A Major League Baseball player who gets a hit one-third of the time is headed to the Hall of Fame; a venture capitalist who hits it big one-fifth of the time will likely make a lot of money for his or her investors. As for CHCF, we would not be happy with a batting average of .340, let alone .200. But given our approach we would not be happy batting 1.000 either – that would probably mean that we were only investing in "sure things," and that is not consistent with how we see our role.

But if higher risks mean a higher chance of "failure," how do we make those failures productive? We think that we have three responsibilities in assessing our failures along with our successes: lessons for staff, lessons for the board, and the dissemination of lessons to the field.

STAFF LESSONS

> *Results! Why, man, I have gotten a lot of results. I know several thousand things that won't work.*
> *– Thomas Edison*

In 2008 CHCF began to convene internal sessions aimed at capturing and distilling key findings from foundation grantmaking – both successes and failures – in order to improve performance. We dedicated the first session to the question: What does it take to maximize the spread of best practices?

We are deeply involved with the health care delivery system in California. But our limited resources mean that our grants cannot directly touch more than a few provider settings. Therefore, much of our strategy relies on identifying promising interventions, implementing them on a small scale, and then facilitating their adoption or spread in new sites or populations. Evaluation staff compiled background materials summarizing the results of past projects, and the entire program staff met for three hours in small, cross-program workgroups to share experiences and grapple with issues related to spread. This session produced a number of guidelines for consideration by program staff developing projects targeting spread, including careful attention to the value proposition of the intervention from the perspective of the target audience, the role of "champions" and leaders at all levels (from line staff to executive), and the critical importance of peer-to-peer learning in those efforts. The session findings were documented in writing and have become a source of institutional knowledge for program staff. Subsequent sessions have focused on translating policy recommendations into action, working in partnership with the state, and sustainability models.

A number of risky grants whose outcomes were disappointing taught us to test out big, new ideas on a small scale first. For example, the Center for Health Journalism went through a 6-month pilot "proof of concept" phase before our board considered a major multiyear commitment.

Another result of our self-assessments is a commitment to do more frequent midcourse check-ins with grantees and encourage redirection and modification as appropriate. This approach is a bit at odds with many traditional evaluation methods, but we think it is more likely to produce success in the real world.

BOARD LESSONS

From the foundation's beginning we reported on closed-out grants to our board. Over time, as our grantmaking experience and portfolio grew, our staff and board decided to formalize this process to better inform the board's discussions of foundation strategy. In the spring of 2007, we began to complete what we call Results Reports for all board-approved projects when all related grants have closed. These reports are short summaries (no more than four pages) of accomplishments, challenges, evidence of impact, and lessons learned, and they ask program staff to compare the actual results of the project to results expected at the time of project approval. Our board has consistently told us that they find them extremely valuable.

In the spring of 2009, we conducted a review and synthesis of the 46 Results Reports completed to date, covering $49 million in foundation investments. A few key themes emerged from that review – hard-won lessons learned that cross content areas and program teams. For example, staff reported that initiatives were sometimes unrealistic in their scope and timeline, failing to allow sufficient time and flexibility to adjust to changing circumstances. Instead, the suggestion repeatedly emerged, we should adopt a phased approach to large and complex projects that would allow (some might say force) us to "pause and reflect" on progress to date and on the need for a midcourse correction. We shared this and other themes with the board at our annual retreat in 2009, resulting in an animated discussion.

We grappled, though, with how to involve the board in oversight of risky projects, especially since most of our board does not have deep personal expertise in health care. Eventually we developed and presented to each board member an "oversight tool" (Figure 4) that translated the themes into questions, and explicitly invited them to challenge staff to address these issues during the approval process – with the objective of engaging them as full partners in our effort to identify and mitigate risks.

FIGURE 4: BOARD OVERSIGHT TOOL

If the project...	Then ask us...
Is large, complex, and long-term	Has the project been separated into phases to learn from work to date and make midcourse adjustments
Depends on county government action	About incentives or levers to stimulate county action, e.g., executive champion or Board of Supervisors' commitment
Involves large-scale data analysis using untested data sets	How have the uncertainty and potential delays in obtaining, reformatting, and analyzing the data been addressed
Attempts to spread an intervention and encourage adoption	• Whether the value of the intervention has been considered from the perspective of leadership and staff, including incentives and barriers to adoption • About the role of peer learning in the project • Who would provide leadership at all levels – from organization to frontline staff • Whether widespread adoption of the proposed intervention is truly feasible, and what approaches we are taking to lower adoption cost (establishing standards, creating a "toolkit") • If timeline and outcomes are realistic
Targets policy change	• To define the specific policy outcomes • How results of the stakeholder analysis support the project's approach • How stakeholders would be engaged in identifying policy solutions

Even if a board of directors supports taking risks, it can be a test of fortitude for staff to respond. Staff may ask, "Is the board really serious?" or "Does the risk-taking appetite of one or two board members truly reflect the sentiment of the entire board?" These issues can only be tested by reporting both successes and failures to the board for its reaction. As our board chair has said, "Unless the board urges risks, it is harder for the staff to take them, no matter what they might say on the subject. Most institutions, and most people, tend to be risk averse. So it is important for a board to be quite specific about the need for a staff to take risks – and to repeat that admonition." He also points out that a board may have different appetites for taking different kinds of risk; the consequences of funding a project that does not produce high value results may be more easily tolerated by the board – or some members of the board – than reputational risks.

DISSEMINATION TO THE FIELD

It is emotionally difficult and professionally humbling to acknowledge failures – let alone broadcast them. And there are political dangers here, too. Given the tremendous demands for resources for health and social services, foundations understandably face criticism for "wasting" money when concrete immediate needs go unmet. One of the strengths of philanthropy, and one of the privileges working in this field, is the ability to try new things and to fail without being turned out of office, going bankrupt, failing to get tenure, or any of a number of negative consequences in other lines of work. But if taking philanthropic risk leads inevitably to some level of failure, we should be sure to make them productive failures. The privilege of grantmaking is

accompanied by a reciprocal responsibility to extract every possible lesson from our efforts so that we and others can benefit from them.

This is easier said than done. It is often intellectually challenging to understand *why* something did not work; doing so successfully usually requires careful planning *before* a project starts. Complex controlled experimental designs are rarely practical (or affordable) for us, so creativity is required. There are a number of foundations whose efforts to scrupulously report strengths and weaknesses of their major investments are particularly noteworthy – The California Wellness Foundation, for instance, and its Reflections series come to mind[4]. We, too, have tried to make our failures productive ones. Perhaps the best example is our investment in the Santa Barbara Care Data Exchange, a multimillion dollar investment in a then-new form of technological interconnection allowing local health care providers to share patient information across various care settings. Indeed, it was the first example of what has come to be known as regional health information organizations. Although the effort was ultimately unsuccessful, it revealed for the first time a number of significant lessons about the political, business, and operational challenges of exchanging patient data in the real world. CHCF commissioned several research papers, which we disseminated widely, and supported a special section in the journal *Health Affairs*, which reviewed the history of this effort and included an independent evaluation, commentaries by participants and experts in the field, and a foundation perspective on the experience – warts and all[5,6,7,8]. Even though the local project did not succeed, it helped put the concept of using technology to share health information on the map. The leader of that project, Dr. David Brailer, went on to become the first National Health Information Technology Coordinator.

All organizations, whether they choose to admit it or not, suffer losses at some point in their existence. In the investment world, risk is directly related to potential return – in theory. In practice, as we have seen in recent years, that is not necessarily the case. Nevertheless the economic risk/reward relationship holds broadly true – indeed, most foundations' investment committees acknowledge it in their asset allocation. But like smart businesspeople and smart politicians, smart foundation leaders can learn from failures though we do not seek them. In philanthropy, our work is rarely binary– win/lose or success/failure. By assessing the risks of a grant or initiative, mitigating them where possible, and sharing misfires with the wider community, the public is best served. In this way the failure of one philanthropic effort contributes a building block for future successes.

FOOTNOTES

1 http://www.fresnobee.com/diabetes/

2 http://www.santacruzsentinel.com/ci_14252716?IADID=Search-www.santacruzsentinel.com-www.santacruzsentinel.com

3 http://www.mercedsunstar.com/115/story/1282751.html?story_link=email_msg

4 http://www.calwellness.org/publications/reflections.htm

5 Miller, Robert H., and Bradley S. Miller, "The Santa Barbara County Care Data Exchange: What Happened?," *Health Affairs* 26(5):w568-w580, September/October 2007.

6 Brailer, David J., "From Santa Barbara To Washington: A Person's And A Nation's Journey Toward Portable Health Information," *Health Affairs* 26(5):w581-w588, September/October 2007.

7 Frohlich, Jonah, Sam Karp, Mark D. Smith, and Walter Sujansky, "Retrospective: Lessons Learned From The Santa Barbara Project And Their Implications For Health Information Exchange," *Health Affairs* 26(5):w589-w59, September/October 2007.

8 Holmquest, Donald L., "Another Lesson From Santa Barbara," *Health Affairs* 26(5):w592-w594, September/October 2007.