GRANTMAKERS IN HEALTH

Taking Risks at a Critical Time

Conventional wisdom tells us that philanthropic dollars are the risk capital of society. But do foundations really live up to their bold, risk-taker self-image? Or, as one observer put it, do "foundations want to be bold, innovative, and at the cutting edge of world problems – just as long as the proposals served up to them are guaranteed" (Hooker 2001)? Tough times make risk taking difficult to contemplate. Yet, periods of uncertainty may call for unconventional thinking and action just as much as better times do – perhaps even more so. To remind foundations of their unique risk-taking potential, and of the reasons why they need to take those risks today, Grantmakers In Health chose *Taking Risks at a Critical Time* for its 2010 annual meeting theme.

This theme focuses directly on the challenges health funders are facing today when they have to balance fewer resources with greater internal and external needs. The economic crisis of the past year may have presented some opportunities, but it has also forced many foundations to make tough decisions about both their programs and internal operations. On one hand, there is less room for error. On the other hand, current circumstances call for bold action. Calculating risk in either case is not easy, but it is essential. The value of accepting calculated risks, and the downsides of not doing so, are the focus of this essay.

Be on the lookout for the following essays written specifically for the 2010 GIH annual meeting.

- "**Navigating Risk and Control in Creating Public Will to Eliminate Racial and Ethnic Disparities**" by Patricia Baker, President and CEO, Connecticut Health Foundation
- "**A Defining Moment for Health Philanthropy**" by Thomas David, Senior Strategist, Community Clinics Initiative, A Joint Project of Tides and The California Endowment
- "**Today's Risk Is Tomorrow's Convention**" by Karen Wolk Feinstein, President and CEO, Jewish Healthcare Foundation
- "**Taking Risks at a Critical Time: Partnering with Government to Improve Health**" by Phillip Gonzalez, Director of Grantmaking, Blue Cross Blue Shield of Massachusetts Foundation
- "**On Risk**" by Mark D. Smith, President and CEO, California HealthCare Foundation

PHILANTHROPY AND RISK TAKING: MADE FOR EACH OTHER?

Risk taking is more than simply taking on a challenge. Risks combine the uncertainty of challenges with the real possibility of loss. For organizations the loss could affect finances, such as a risky business venture; or reputation and community standing, like being associated with a high-profile failed project; or infrastructure, like the fallout from a board-CEO clash. Fear of the negative effect of losses drives most organizations to be risk averse.

Foundations are often idealistically viewed as being especially suited to take the risks that other organizations avoid. For instance, one author describes foundations as risk absorbers, investing where there is great uncertainty that an investment will yield a return and that actions will bring about intended benefits (Anheier 2009). Foundations are particularly seen as being better positioned to take risks than either government or business because of their independence from election politics and market considerations that make these sectors vulnerable, respectively. In fact, foundations are not immune from being hurt by risk taking, but risk taking plays out differently for philanthropy than it does for business and government. Understanding these differences both clarifies philanthropy's unique potential and underscores the importance of exercising it.

In business, risk taking is linked to rewards and is driven by the financial bottom line. Companies succeed by seeking risks, not by avoiding them, and companies that want large rewards have to be willing to expose themselves to risk. The most successful businesses of our time, from General Motors in the early part of the 20th century to the Microsofts, Walmarts, and Googles of today, have all risen to the top by finding particular risks that they are better at exploiting than their competitors are (Damodaran 2007).

Philanthropy, on the other hand, is driven not by profits or market share but by deeply embedded values, described by Susan Berresford (1999) as being generosity, experimentation, and respect for freedom. Being value-driven implies a much more complex relationship between organizational operating style and ultimate objectives than in the business world. Profit and loss, the best indicators of business performance, are generally absent in areas and fields where foundations operate (Anheier 2009). The bottom line does not drive foundation decisionmaking or a foundation's assessment of an acceptable or unacceptable risk. Nor do foundations take risks in order to gain a competitive advantage over other organizations. Rather, the value of a risk to a foundation – at least in theory – derives from its relationship to the philanthropic goals the foundation wants to achieve.

Interestingly, being free from profit and loss considerations gives foundations more latitude than business to take risks, but foundations can also be more *risk averse* than business precisely because being successful does not require taking risks. A foundation can do the same thing year after year and consider itself to be successful, simply by defining success in conservative terms. This is a version of what has been termed "underperforming," by not taking substantial risks on behalf of change and innovation (Giloth and Gewirtz 2009). We will return to why this is a bad idea.

Compared to the public sector, foundations have the potential to take more risks because they are somewhat sheltered from political concerns. Elected officials who take chances that are not perceived as having a significant reward run the risk of being voted out of office. Other public officials are under scrutiny to show that they are spending tax money wisely, are eliminating wasteful and redundant programs, and are establishing clear accountability for government programs and agencies. Fiscal responsibility – which can quickly translate into risk avoidance – is considered a cornerstone of good governance.

Freed from government's vulnerability to external public pressure, philanthropy can work on complex problems that require sustained, highly targeted funding; that challenge the status quo; that strengthen essential but weak institutions; or that give voice to politically powerless communities (Lawry 2009). Foundations can fund issues that government cannot support or is reluctant to address, and can fund organizations that are not eligible for public funding. The organizational autonomy that foundations enjoy shelters them from the pressures of public accountability and the constraints of public financing. But this freedom, like being free from the pressure of making a profit, is a double-edged sword that can encourage risk taking but also lead to complacency. It can be tempting to focus on convening and consensus building – which can admittedly be challenging tasks – rather than being willing to take a stand and to exercise leadership in the face of vocal criticism.

ARE THERE GOOD REASONS FOR NOT TAKING RISKS?

危險

The Chinese symbol for risk can be interpreted as being a combination of danger (crisis) and opportunity, representing both the downside and the upside of risk. The symbol suggests that any approach that focuses on minimizing risk exposure (or danger) will also reduce the potential for opportunity (Damodaran 2007). In other words, there is a risk to not taking risks. For foundations, not taking risks can spell missed opportunities to:

- tackle new or emerging problems,
- work with difficult or hard-to-reach populations,
- invest in new ways in communities and with community organizations,
- develop new relationships with other public and private funders,
- develop new organizational grantmaking strategies,
- increase foundation influence, and
- foster the ongoing education of trustees.

Missed opportunities matter because they are mechanisms by which foundations can evolve organizationally, address the root causes of community problems, leverage scarce funds, and improve on past programming. They are mechanisms for increasing effectiveness – both internally as a funding organization, and externally as a catalyst for social change.

There are several reasons why foundations are hesitant about taking risks:

➤ ***Focusing on Short-Term Measurable Impact Rather than Taking the Long View*** – Short-term projects of a year or two seem safe because they limit the foundation's financial investment. Moreover, grantees may reassuringly predict dramatic results within this short timeframe (Lawry 2009). But in reality – especially in the health arena – few problems turn around in the short term, and a foundation that expects measurable, positive results in just a year or two is destined to be disappointed. Long-term investments in health improvement are essential. Avoiding them because they are higher risk than short-term interventions simply denies the reality that health problems develop over years and have complex origins that relate to community conditions, individual behavior, and health care service delivery. Tackling the causes of ill health requires long-term support, even if grantmaking focuses on just one of the factors that contribute to the problem.

➤ ***Misinterpreting Failure*** – Because risky opportunities are untested, they are likely to have a higher rate of failure than conventional approaches. But is that a bad thing? Many observers of philanthropy assert that if a foundation's role is to invest in exploring new territory, then it must also be expected to fail. Indeed, some assert that unless a foundation grant portfolio includes a healthy proportion of failures, the foundation has not taken enough risks. It is simply substituting philanthropic money for government or market money and hence is not fulfilling its societal role (Raymond 2002).

For some, failure goes hand-in-hand with taking risks and pursuing difficult tasks. If philanthropy never fails, it means no risks have been taken. If no risks have been taken, then the chance to produce high levels of social impact is off the table (Stannard-Stockton 2008). In the words of Warren Buffett, "You can bat a thousand in this game if you want to by doing nothing important. Or you'll bat something less than that if you take on the really tough problems" (Gates 2010).

Failure informed by self-reflection and evaluation can open the door to new insights and program strategies:

> Given the challenging social problems that foundations and our grantees try to solve, we should expect that we will often fail to achieve our shared aspirations. When this happens, we should seize the opportunity to understand the causes in order to improve our own performance and benefit others working in the field (Brest 2007).

Another writer observes, "While it may not have accomplished what was originally intended, [a] project may well have succeeded in accomplishing something wholly desirable even if unintended or unanticipated" (Hooker 2001).

➤ ***Over Reliance on Best Practices*** – It is understandable that foundations want to promote best practices and reproduce effective programs. Doing so reflects the assumption that social problems are common across diverse communities and that it is far more cost effective to systematically reproduce an effective solution to these problems than to continually reinvent the wheel. As an organizational strategy it is certainly preferable to uncritically questing after the latest thing and succumbing to fads.

Even best practices and model programs have their pitfalls, however. The main one is that a practice or model that comes from the outside and was not developed by the local communities in which it is being replicated may not work out even if the prototype was successful. The conditions in which the program took shape can be quite different from those of the superficially similar community into which it is being introduced. Because replication is a complex task and "one size fits all" does not apply, successful efforts to bring social programs to scale have actually been limited (Summerville and Raley 2009).

Thus, under the best of conditions, best practices and program replications have their limitations. But even if their success rate was high, it would be legitimate to ask how foundations will learn about other approaches that work if their only investment is in best practices and known program models (Pickett 2009). If risk is totally avoided in the search for guaranteed results, who will thoughtfully fund the "blasphemers, the innovators, the revolutionaries" (Raymond 2002)?

➤ ***Anxiety about the Regulatory Environment*** – Concerns about engaging in advocacy make many foundations gun shy about supporting certain organizations or issues. They may be worried about legal restrictions or about the political consequences of taking a side on an issue. In fact, while some legal restrictions exist, health funders have great flexibility to engage in the public policy process. Different rules apply to public charities (501(c)(3) organizations that meet certain requirements such as broad public funding support), private foundations (501(c)(3) with limited funding sources), and social welfare organizations (501(c)(4) organizations). In general, health funders may legally engage in a wide variety of activities related to advocacy and public policy (GIH 2009).

EXAMPLES OF RISK TAKING IN ACTION

The following examples illustrate successful risk taking at the local, regional, and state level to improve health. The Mabel Louise Riley Foundation's goal was the revitalization of the Dudley Street neighborhood in Boston, while The Dorothy Rider Pool Health Care Trust (Pool Trust) wanted to create a regional health authority in the Lehigh Valley of Pennsylvania, and the Blue Cross Blue Shield of Massachusetts Foundation wanted statewide health care reform. Risks they faced included loss of reputation, trustee fatigue, and the appearance of money going down the drain. All three foundations exhibited strong, sustained leadership; patience; and a willingness to use a variety of strategies to achieve their goals. Their stories demonstrate the value of taking the long view, learning from mistakes, and getting involved in public policy.

➤ ***Fostering Community Change*** – Community change, especially when it involves disrupting the status quo in support of residents, neighborhood leaders, organizations, and networks that need and deserve access to better chances and resources, is a high-risk enterprise. One of the most successful community development projects in the nation is the result of a foundation making the high-risk decision to not be in control. In 1984 the trustees of the Boston-based Mabel Louise Riley Foundation partnered with a few key nonprofit organizations to develop a plan to revitalize the Dudley Street neighborhood in a racially mixed section of Boston devastated by arson, disinvestment, neglect, and redlining practices.

When the newly formed Dudley Street Neighborhood Initiative (DSNI) presented its plan at a public meeting the process fell apart. Neighborhood residents protested and balked at participating in the plan. They were upset that they had not been consulted during the development phase, and they demanded to know how many of the foundation and nonprofit leaders lived in, and could therefore speak for, the community.

In response, the Riley Foundation's trustees discarded their original idea and began again, involving residents in every phase of the rebuilding plan. DSNI set up a new governing structure that gave residents a majority on the board, and the redevelopment process began with a $50,000 grant from the foundation.

One of DSNI's first successful community health projects was the *Don't Dump on Us* campaign. Recognizing the disproportionate impact of pollution and trash on poor communities, residents asked the U.S. Environmental Protection Agency to test soil samples in areas where refuse was being illegally dumped. They ultimately succeeded in getting the city to haul away trash and abandoned cars throughout the area. They were also able to get two illegal trash transfer sites closed. That process and the redevelopment work that followed required residents and community leaders to develop skills in organizing, policy development, fundraising, strategic planning, and coalition building. The foundation came to see itself as a resource for the community, not a leader of the initiative (GIH 2006). It has since contributed more than $10 million to projects in the Dudley neighborhood, continuing to the present day.

➤ ***Improving Regional Health*** – For the Pool Trust, risk taking was supporting the creation of the first regional health board in Pennsylvania, a state characterized by fragmented services and the dominance of local government. Achieving this goal meant sticking with the project for nine years, dipping into the muddy waters of local and state politics, investing more than ever before, and demonstrating boundless resourcefulness. To paraphrase one of the Pool Trust's program officers:

> It was constantly kind of going into the toolbox, and okay, what are we pulling out today? Are we pulling out convening? Facilitating? Public policy work? Grantmaking? Leveraging? Partnering? Innovation? So we're constantly kind of going back to our little toolbox trying to pull little things out to keep this thing going….Once you get involved with this, there's just no walking away from it. They just keep pulling you back in (Dendas 2008).

The long process began in 2000, with a feasibility study that the Pool Trust funded at the urging of the mayor of the city of Bethlehem. Through many ups and downs in the years that followed, the Pool Trust maintained its commitment to the project and worked creatively with local lawmakers, service providers, and nonprofit organizations to bring it to fruition. Challenges along the way included skepticism about the feasibility of a regional board, concerns about costs, and public health law. The Pool Trust's involvement included supporting service model studies, working with local legislators to revise an antiquated public health statute that had a "one in a million chance" of changing, and funding a local nonprofit to support community organizing and a campaign to build citizen support.

After investing about $150,000 over the years for feasibility studies, business models, and outside consultants, the Pool Trust confronted a final, enormous financial hurdle. First, so that the new regional board could draw down more state funds and use less local funding, the Pool Trust developed a new funding model involving local hospitals that intertwined hospital charitable care and public health funds. Then, to seal the deal, the Pool Trust offered a $1-million challenge grant if Lehigh and Northampton counties could pass ordinances creating the regional board of health by December 31, 2007 (GIH 2008). The challenge was successful, and the new regional board held its first meeting in January 2009. Now, in partnership with the Two Rivers Health & Wellness Foundation, the Pool Trust has given the regional board a $1-million grant to support startup of the regional board. This funding will allow elected officials to move ahead with the project without drawing on severely limited public funds (Pool Trust 2009).

The Pool Trust's extraordinary role in the Lehigh Valley story was recently recognized by the National Association of Local Boards of Health, which presented its 2009 President's Award to the foundation in recognition of its leadership in creating new partnerships between and among local governmental entities, community hospitals, businesses, civic organizations, and public health advocates (Pool Trust 2009).

➤ ***Health Care Reform in Massachusetts*** – All told, reform to expand health insurance coverage in Massachusetts was a 25-year process. The Blue Cross Blue Shield of Massachusetts Foundation (BCBSMA Foundation) was among many funders that supported the work of health care advocates to move health reform to the front of the state's agenda. Established in 2001 with the single purpose of expanding access to health care, BCBSMA Foundation's strategy from the start included grantmaking that would promote programmatic change while simultaneously advancing public policy (Community Catalyst 2009).

Health reform in Massachusetts had its origins in the early 1980s when there was no consumer voice in the health policymaking process. In this period, the Villers Foundation and The Boston Foundation were among the pioneering funders that supported coalition building to give consumers a voice in health care. This funding resulted in the formation of new consumer advocacy organizations that utilized tactics such as policy advocacy, direct action, and grassroots organizing to win a seat at the table in health care negotiations.

In 1988 Massachusetts passed its milestone Universal Health Care Law. This achievement was followed, however, by a severe economic downturn and the abandonment of support for health reform by political leaders and hospitals. The Nathan Cummings, Public Welfare, and Boston Globe foundations were among those that sustained momentum during this difficult period and through the 1990s.

In 2004, leveraging the work of these earlier funders, BCBSMA Foundation developed a three-year initiative called the Roadmap to Coverage to significantly expand health insurance coverage in Massachusetts. The initiative involved BCBSMA Foundation in meetings with members of the state legislature, and community and health care leadership, and included the commissioning of a series of reports. Using the report findings, an extensive and strategic process of engaging policymakers, stakeholders, and the media moved the policy debate forward. At the same time, the foundation made a significant and sustained investment in community organizing and advocacy (Community Catalyst 2009).

In 2006, after intense negotiations, Massachusetts passed comprehensive health reform legislation to provide affordable coverage for uninsured residents. Following this, BCBSMA Foundation commissioned polls and surveys on the effects of health care reform to inform the general public and policymakers about residents' concerns. This information proved to be so helpful that the state subsequently assumed responsibility for collecting it.

In recent years, BCBSMA Foundation has focused its funding efforts on policy analysis and grantmaking to ensure that policymakers, stakeholders, and the general public understand the challenges of implementation, which implementation projects are working, and where they need to be strengthened. Currently the foundation's primary policy initiative is Care Beyond Coverage, which focuses on identifying barriers to access beyond health insurance coverage and suggesting evidence-based policy solutions.

CONCLUSION: RISK, TRUST, AND HONESTY

An important lesson from these examples is that taking risks means trusting communities and community organizations. As one author puts it:

> We need to trust that they can identify and describe the issues and problems facing them and that they have much to contribute to the design of solutions. This, traditionally, has been a very hard trust for grantmakers to have, sometimes for very good reasons. There have been cases where it hasn't worked out very well…What are often needed are a good collaborative method and a lot of capacity building (Broadbent 2006).

Honesty is a critical element of trust. If funders are more honest about the risks they perceive in a project, it may encourage grantees to be more honest in turn about possible pitfalls ahead. More often, both sides downplay risk, hoping to convince their respective decisionmakers that the project is a sure bet. "Because they fear program officers and feel they must seduce them with beauty while concealing their flaws, grant seekers do not pursue a relationship with program officers built on trust" (Hooker 2001).

To take risks strategically and intentionally, and to learn from the experience, foundations must embrace transparency, accountability, and the philosophy that the lessons learned make risk taking worthwhile. For philanthropy, mistakes are part of the reward of grantmaking. Along with successes, they are an important opportunity to improve the design and implementation of social investments (Giloth and Gewirtz 2009).

Giloth and Gewirtz's "Philanthropy and Mistakes: An Untapped Resource" (2009) offers key points that underscore the value of risk taking, even when the originally desired outcome is not achieved:

- Sharing and leveraging lessons learned from mistakes can improve philanthropic investments and nonprofit performance.
- Philanthropic mistakes can be used to examine questions of mission, role, investment strategies, and implementation.
- By distinguishing between "constructive" and "nonconstructive" mistakes, attention can be focused on the factors that shape the outcomes for even the most well-designed investments.
- Sharing and reflecting upon mistakes can improve philanthropic capacities for anticipation, learning, and adaptation.

In conclusion, it is worthwhile to consider the challenge issued in Somerville and Setterberg's *Grassroots Philanthropy*. Drawing on one of philanthropy's grand goals – to achieve greatness – Somerville and Setterberg (2009) assert:

> The thought of failure terrifies most funders. With almost nothing to lose, grantmakers persistently embrace safe and predictable projects instead of untested, but promising, new ideas. They confuse bold action with recklessness. Imagine if this attitude prevailed in other aspects of American life. There would be no cell phones, no computers, no man on the moon, no *Declaration of Independence*, and perhaps no Columbus sailing across the perilous seas. Great achievements almost always involve calculated risks.

REFERENCES

Anheier, Helmut K., “Reflections on the Global Economic Downturn, Philanthropy and Nonprofits,” <http://www.ngoforum09.se/ngoidentity/key-note-paper-prof-helmuth-k-anheier/>, December 2009.

Berresford, Susan V., “American Philanthropic Values and the Future of Philanthropy,” < http://www.fordfound.org/newsroom/speeches/108>, May 1999.

Brest, Paul, “Evaluating Our Work. Hard Lessons about Philanthropy & Community Change,” <http://www.hewlett.org/what-we-re-learning/evaluating-our-work/hard-lessons-about-philanthropy-community-change>, March 2007.

Broadbent, Alan, “Fulfilling the Philanthropic Contract: Mutual Benefit for the Public Good,” <http://www.maytree.com/speeches/grantmaking.html>, October 2006.

Community Catalyst, *Funding Makes a Difference: The Role of Philanthropy in Massachusetts's Journey to Health Care Reform (1982-2008)* (Boston, MA: January 2009).

Damodaran, Aswath, *Strategic Risk Taking: A Framework for Risk Management* (Philadelphia, PA: Wharton School Publishing, December 2007).

Dendas, Ron, The Dorothy Rider Pool Health Care Trust, remarks at the Grantmakers In Health Issue Dialogue, *Strengthening the Performance and Effectiveness of the Public Health System*, May 13, 2008.

Gates, Bill, “Annual Letter,” < http://www.gatesfoundation.org/annual-letter/2010/Documents/2010-bill-gates-annual-letter.pdf>, January 2010.

Giloth, Robert, and Susan Gewirtz, “Philanthropy and Mistakes: An Untapped Resource,” *The Foundation Review* 1(1):115-124, Winter 2009.

Grantmakers In Health, *Strengthening Community Capacity*, annual meeting essay (Washington, DC: February 2006).

Grantmakers In Health, *Strengthening the Performance and Effectiveness of the Public Health System* (Washington, DC: 2008).

Grantmakers In Health, “Understanding the Legal Limits of Policy and Advocacy,” <http://www.gih.org/info-url3995/info-url_show.htm?doc_id=989869>, August 25, 2009.

Hooker, Michael, “Moral Values and Private Philanthropy,” *Grantmakers in the Arts Reader*, 12(1), Winter 2001.

Lawry, Steven, “U.S. Philanthropy's Shrinking Ambition. Humanitarian and Development NGOs Domain,” <http://hausercenter.org/iha/archives/46>, December 2009.

Pickett, Jessica, “Private Philanthropy in Global Health,” <http://globalhealth.change.org/blog/view/private_philanthropy_in_global_health#>, December 2009.

The Dorothy Rider Pool Health Care Trust (Pool Trust), “Pool Trust Recipient of 2009 NALBOH President's Award,” <http://www.pooltrust.com/press_releases/NALBOH%20Presidents%20Award%207-2009.pdf>, June 2009.

Raymond, Susan, “Question #8: Will There Be Room for Risk?” <http://www.onphilanthropy.com/site/News2?id=5261&page=NewsArticle,> December 2009.

Somerville, Bill, and Fred Setterberg, *Grassroots Philanthropy: Field Notes of a Maverick Grantmaker* (Berkeley, CA: Heyday Books, 2008).

Stannard-Stockton, Sean, “The Poster Child for Failure in Philanthropy,” <http://www.ssireview.org/opinion/entry/the_poster_child_for_failure_in_philanthropy/>, May 2008.

Summerville, Geri, and Becca Raley, “Laying a Solid Foundation. Strategies for Effective Program Replication,” <http://ppv.org/ppv/publications/assets/298_publication.pdf>, July 2009.