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#495 The Seductive Allure of Evidence-Based Grantmaking

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I have reached the age where my meals are accompanied by a panoply of various colored pills. All of them address under-the-hood type maladies that only modern medicine can locate and treat.

Thank goodness for RCT's – randomized control trials – that have allowed scientists to determine the applicability and probability that these small interventions actually work. Science and the scientific method matter, and I am only one of many millions of people whose lives are better because of that. [Any political extrapolation any of you want to make at this juncture is strictly up to you.]

Most if not all of the progress in medicine and responsible[!] pharmaceuticals is because of careful and diligent application of RCTs. And most of that is because funders chose to fund the research. Some of that funding came from government sources like NIH, others from private foundations, and still more from the private sector. But whatever the source of funding, their FDA endorsement as effective treatments are because of overwhelming evidence supporting that decision. Thank goodness.

But, and this is a very important but, the overwhelming evidence only speaks to high probability of success. If one reads the labels or the fine print enclosures, one sees that there are all sorts of potential side effects, counterindications, and more to all medical interventions. RCT evidence does not guarantee that treatments work for everyone, only to its probability for most, most of the time.

In other words, even in the most tested and proven interventions, the most we can do is talk about relative risk, never guarantee. So, while most of us have appropriate and well-deserved confidence in these medications, we could be the exception. The FDA knows that, and our physicians should know that, and we should as well.

Now on to our topic: recently I have read a bunch of public statements by various foundations that affirm their commitment to "evidence-based grantmakng". Rarely, though, was there a clarification of what they meant. I am not trying to be snarky – I understand their intent to show that they want to make decisions based on what is likely to have a positive impact, to catalyse [to use the current popular jargon] positive change, to avoid purely discretionary or social giving, and to make sure that the resources under their auspices are to be used well and wisely. Absolutely.

However, evidence is a tricky thing. There is all sorts of evidence out there and it often depends on what question you ask. To take one very amusing but true example, a funder wanted an evaluator to provide evidence that a voluntary after school program for high school students he funded had changed their lives – after the program existed for less than 6 months! All of us can see through that one.

Other examples are more challenging. For a long time, there has been an awareness that the high school drop-out rate in the USA is shockingly high, and there have been all sorts of interventions to change that. Some of them have worked, others haven't. However, it turns out that high school graduation by itself does not guarantee successful adaptation to the workplace or adult financial stability. To be sure, high school graduation is a typical precondition, but insufficient to accomplish what most funders truly wanted to see. So, as we examine evidence to make a funding decision, we might see that the high school graduation rate has improved because of a funder's thoughtful giving. This funder has indeed made an evidence-based funding decision. Yet, others might say that it is answering the wrong question since it doesn't change the long-term desired outcome and therefore the evidence doesn't support that funding decision, at least without funding additional interventions.

Moreover, it is true that in pharmaceuticals, we want the user to have confidence that use of a specific drug is low risk and has a high probability of appropriate positive impact. But social change is far more complex. There are few examples where we can control for enough factors to be able to rely on an RCT model either ethically or functionally. In the real world, families, educators, economics, neighborhoods, even personalities all influence behaviors in ways that are hard to partialize. If we were to rely on an RCT model, we would never have enough confidence in the evidence to fund any social or educational intervention. And yet of course we must. That means, though, that we need to accept a different standard of risk and reliability. And in most cases we need a longer-term commitment of funding and project to begin to understand what has worked, what hasn't worked, where, and with whom. Any funder who misperceives that "evidence-based" assures them of the outcome they desire is very likely to be disappointed – or bamboozled. The most we can know that in similar situations this has some statistical probability.

Permit an aside: some funders look to successful examples in the fields they fund. They trust that the innovation funders have done their job , enabled a "success" and now with that evidence it can be implemented more widely. In other words a low risk, evidence-based grant. However, the challenge of effectively replicating success is the all too frequent paucity of documentation about new interventions. Creative program staff can often intuit a new approach to something and, lo and behold, it worked. But ask them to clarify all the steps and questions that got to that, and they are often befuddled. Funders who choose to fund innovative projects or programs would be well advised to include funding to make sure that the entire thought and implementation process is well documented. The application of these new approaches depends on understanding what worked and what didn't work and why. A funder who looks at the original success as "evidence" without that documentation may end up being surprised that a highly celebrated success turned out to be less replicable than it appeared.

The underlying issue for funders is relative risk. Since we have already demonstrated that even the gold standard, RCTs, is no guarantee of success, what is a funder to do regarding assessment of risk tolerance?

Which brings me to another true story about risk– much abbreviated and anonymized here. A family whose donor advised fund under the auspices of a community foundation had not agreed to spend any of it. It wasn't as if they were opposed in principle, but they were never persuaded by the projects presented by the staff at the community foundation. When I was brought in to facilitate, it appeared that they considered all of the projects to be tried and true, but lacking. None had really solved the deeper problems they were supposed to address. Their argument – what could be riskier than trying the same palliatives over and over again and assuming they would bring about more systemic results? "We would rather use these resources in ways that were never tried before but, who knows, might actually address more underlying issues."

In other words, sometime change requires challenging the accepted or facile evidence. The more change one wishes to bring about, the more likely it brings greater risk, either because of the nature of the problem or the length of time necessary or the need for inter-sector collaboration. And herein lies the potential flaw in the thinking of at least some of those funders who espouse "evidence-based" grantmakng. If they mean that they only want to fund low-risk programs, projects, or organizations, they are likely to bring about a continuation of what exists already. There is nothing wrong with that if their commitment is to sustain organizations that are doing good and reliable work. But if an ancillary goal is to bring about some sort of change, systemic or otherwise, greater risk tolerance must take priority over evidence in the decision-making process.

Now, it would be wrong for a reader to conclude that I am suggesting that evidence doesn't matter. It does and should play a role in any funding decision we make. The challenge for us is to decide its relevance to our decision. If "evidence-based" becomes a synonym for "risk aversion" we have profoundly limited our distinct ability to bring about much needed innovation and change in any of the spheres in which we choose to fund.

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For those who are interested in more in-depth analysis of how to understand "evidence" I commend that produced by the UPenn Center for High Impact Philanthropy as one well researched methodology. [Full disclosure, I have a decade of part time connection to that Center but was not involved in the research that has led to their very useful tools on this question.]

#481 Overhead ≠Infrastructure; Infrastructure ≠ Field building

May 20, 2024

One would hope that at some point all funders would realize the limited effectiveness, and even counterproductivity, of refusing to fund "overhead." It is a long-standing discussion, brought on, to a large degree by two things: an incomplete understanding of how any organization works and also by an out-of-date attempt by our rating agencies to apply strict percentage analyses to the budgets of non-profit organizations.

There is, by now, a large compendium of articles, blogs, books, and Ted talks rebutting both so I will be succinct.

Projects, no matter how generously funded, don't function in a vacuum. They depend on all sorts of organizational supports to allow them to work, let alone succeed. Funding only the direct costs ends up costing the sponsoring or host organization money if the relevant organizational support costs are not accounted for. In order to accept a "project only/no overhead" grant requires that an organization redirect funds from other cost centers, raise other money for the project that the funder is committed to, and assign supervisory or executive staff to oversee the project. What is intended as a benefit can turn out to be a burden.

Indeed, many of us specifically reject the term “overhead” since it suggests that these costs are unrelated to that which is being funded. I prefer to refer to indirect costs as “infrastructure.” It is a useful metaphor: no part of a building can exist without an appropriate infrastructure. It is not incidental or extra but core to its stability.

The response to the various rating agencies in the field led them several years ago to refute their own earlier methodologies. Of course, as funders we need to understand the finances of any organization we fund and be prepared to ask questions about budget lines that seem distorted. But they and we found that when the percentages were the only key rating metric, it cut off useful analyses of effectiveness, impact, and organizational longevity. Some organizations were so fearful of dropping their A rating that they would gerrymander decision making and budget preparation so that it would support that rating even if it would have been healthier for the organization to make changes. Fortunately, most funders have learned to look beyond those strict percentages to ask more complete questions about an organization.

This too emerged from a distorted or at least limited understanding of how nonprofits work. In young or small organizations, almost everything is operating support – or read differently, everything is program. In most nonprofits, personnel related costs are the single largest budget item, and an organization committed to quality personnel is going to invest heavily in staff training, supervision, recruitment, and retention. Moreover, efficiency, as we well know, is not synonymous with effectiveness.

But, as I suggested at the beginning, this is well worked material. If some funders don’t yet know it, it simply reinforces why courses such as the ones we teach are indispensable for our field.

I put this as background to a conversation I had recently with a very respected [deservedly so] leader of one of the national organizations in our field. Our far-reaching conversation included some observations about our constantly changing eco-system [with apologies to those who feel that word has outlasted its usefulness.] Any of us who have been in the philanthropy sector for any length of time has seen affinity groups come and go, grow and shrink, morph, rebrand, and more.

That shouldn’t be too surprising since so many affinity groups are convened as logical extensions of a shared interest or identity. What may have been an informal caucus at a national conference grew into its own entity to provide much needed information sharing, collaborative opportunities, and more focused advocacy. All well and good.

The crunch came/comes around sustainability. After all, foundations and other funders are typically not committed to funding an ever-increasing number of organizations in the field. For very few is that part of their raison d’etre, or priorities. As good sector citizens, most of us, I think, believe that being connected to others in the field is useful, worthy, and even a responsibility. But that doesn’t mean that the budget for those affiliations is unlimited, nor is there bench strength to justify an expanding collection of memberships. At a certain point, every funder steps back and decides to make hard choices among them.

My colleague and I had agreement about this part of the analysis. However, we disagreed about nomenclature. They referred to these membership affinity groups as "infrastructure" organizations for the philanthropy sector. I preferred to use the term "field building."

In the case of funding nonprofits, I choose to use the term infrastructure because I believe that that is essential. There can be no organization without an infrastructure. Surely there can be many types, many structures, many organizational designs, but having some infrastructure is a sine qua non. it should be a mandate for us to support that infrastructure because it is indispensable to deliver anything we may want to support.

I am less persuaded that affinity and membership groups play the same role. Most funders can and do exist without the involvement of an intermediary or affinity membership group. They are not an indispensable sine qua non for effective grantmaking. Therefore, I didn't agree when my colleague defined support or non-support for affinity groups as analogous to support or reluctance to support infrastructure of nonprofit organizations.

Having said that, let me quickly affirm the value of affinity organizations. Over the years we have been members of many and quite active in a few. They are absolutely valuable for their work in field building, in advancing standards, in recognizing the value of philanthropy education, in convening, and in representation. The challenge, though, is to decide which ones do that, which ones do that well, and which ones would be better as special interest groups of other organizations. And, along those lines, with which ones do we choose to affiliate and why.

You may ask if I am simply nitpicking on the choice of words. Perhaps, but words do convey intention. "Overhead" has become a counterproductive word for funders in understanding how and why to support specific non-profits. I believe that "infrastructure" conveys an understanding of a pre-condition of stability and success of that organization.

Similarly, I feel that "infrastructure" does not describe what the value of field building organizations in our field can be. Without them, unlike for specific nonprofits, our field would continue to exist; but with them we can, as a sector, be much better. It is a distinction worth making.