



John E. Craig, Jr.

Executive Vice President's Report

The Value-Added Foundation: Grantees' Views on the Fund's Performance

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In an insightful 1999 *Harvard Business Review* article, professors Michael Porter and Mark Kramer argue that private foundations can justify their existence only if they structure their operations to add value to the work of their grantees. They note that, because of delays and costs inherent in foundation giving, foundations are a relatively expensive way to distribute funds to nonprofit organizations and social causes. Despite these disadvantages, they claim, foundations can potentially make more effective use of their scarce resources than can either individual donors or government.

Porter and Kramer see foundations as adding value in four ways: (1) selecting the best grantees; (2) signaling the worth of particular projects and grantees to other funders; (3) improving and enhancing the work of grantees; and (4) advancing the state of knowledge and practice in the foundation's fields. Achieving the objective of adding value requires well-defined strategies: a foundation must choose fields in which it is particularly well equipped to add value; focus on those fields and avoid dilution of effort to peripheral areas;

and learn to identify emerging issues and seize windows of opportunity.

Strategy is but the first step in a foundation's effort to realize its potential for adding value. As Robert Wood Johnson Foundation CEO Steven Schroeder, M.D., has observed, "execution trumps strategy," yet decisions about how goals will be carried out often receive short shrift. He adds that achieving a proper balance requires internal reward structures that recognize equally the roles of people who get things done and people who develop strategies, staying in tune with the broad environment, and recruiting staff members who are strong in both strategic design and implementation.

In their recent book, *Execution: The Discipline of Getting Things Done*, corporate CEO Larry Bossidy and management consultant Ram Charan describe three building blocks of execution that apply equally well to foundations seeking to add value: strong leadership, a culture geared for execution, and having the right people in the right places. Christine Letts, William Ryan, and Allen Grossman, exploring what

foundations can learn from venture capitalists in a 1997 *Harvard Business Review* article, emphasize focus and a highly qualified staff. They observe that the typical foundation officer handles hundreds of grant requests and scores of actual grants each year, while venture capital partners typically manage five or six companies at a time. They note further that venture capitalists have longer relationships with their clients than foundations do with grantees. Along with Porter and Kramer, they suggest that a program officer's annual grants budget should not be much greater than \$2 million where adding value is the objective.

The limited literature on foundation management, then, points to the value-added model as one likely to fulfill the potential of endowment-based giving. Although many larger foundations follow the value-added approach, it is not practiced as widely as it should be. The universe of 55,000 foundations in the United States is extraordinarily diverse, with 75 percent having assets of less than \$100 million. The small size

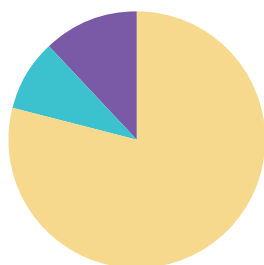
of most foundations limits their ability to add value, and many larger foundations are insufficiently staffed to be much more than hands-off donors focused on pre-grant due diligence; according to The Foundation Center, only one in six foundations has any staff at all, and nearly two-thirds of staffed foundations have only one or two employees. Compounding the issue, many foundations, small and large, spread their resources over too many fields to contribute expertise to the work they support.

The Commonwealth Fund is strongly committed to pursuing a value-added approach. Since its founding in 1918, the Fund has been led by chief executives charged with focusing the foundation's resources on great issues of the day and staffed by professionals who collaborate closely with grantees. Settling early in its history on health care access and practice as its field of endeavor, the Fund has always emphasized the importance of getting things done. That culture lay behind the Fund's contributions in areas such as child guidance in the 1920s, rural hospitals in the 1920–40 era, medical education in the 1960s and 1970s, patient-centered care in the 1980s, and debate concerning the rapid growth of managed care in the 1990s.

Grantees see significant benefits in working with a value-added foundation like the Fund. In a confidential survey of project directors of board-approved grants awarded during fiscal years 1995–2002, a large majority said that Fund support helped focus their work on well-targeted contributions to health policy or practice.

Fund support helped focus the work to make targeted contributions to policy or practice . . .

- Yes, definitely or very much so 79%
- Modest effect 9%
- No, no effect 12%



THE FUND'S APPROACH TO ADDING VALUE

The Fund's current operating processes and staffing patterns reflect both its history and its intention to stay abreast of changes in health care, along with technological, workforce, financial, and other developments. Programs address issues in health care policy and practice where the foundation is likely to make a difference through a combination of extramural grants and intramural program development, management, research, and communications work. To assure focus, critical mass, and capacity to add value, the number of concurrent programs is limited to approximately nine,

conducted by three management groups: Improving Health Insurance Coverage and Access to Care; Improving the Quality of Health Care Services; and International Health Policy and Practice.

Very briefly, the Fund's approach to adding value has eight key elements:

- *Program plans.* Each year, program officers present a program plan to the Fund's executive management team assessing recent accomplishments and challenges, restating goals, laying out strategic options and recommendations, identifying possible grants for the coming year, and addressing relevant financial, grantee performance, and management considerations.
- *Proposal vetting.* Program staff present contemplated projects at board proposal review meetings, where the Fund's executive management team offers further technical, management, and strategic advice on potential projects. Grantees new to the Fund or whose proposed projects mark substantial departures from their previous work attend follow-up meetings with the executive management team. The dialogue is further enriched by conversations with board members prior to board meetings.
- *Project monitoring.* Once funding is approved and formal agreement is reached on project deliverables, program officers monitor projects and promote interaction among grantees through advisory committees, site visits, "all-hands" meetings of grantees within programs, meetings and forums associated with grantees' work, and review of project reports and research paper drafts.
- *Project and program assessment.* Program officers prepare completed grant memoranda on all board-approved projects, and a team of staff members rates each recently completed grant on four

dimensions: project performance, grantee performance, risk, and level of staff effort. These ratings are summarized in an annual report to the board. In-depth reports on selected recently completed grants are prepared regularly by an external reviewer, and external review teams periodically prepare program reviews to inform key strategy decisions. Surveys of grantees and audiences provide broader assessments of the foundation's effectiveness and impact.

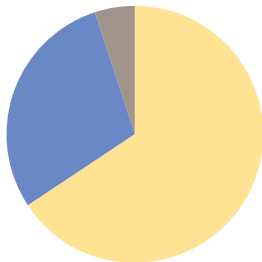
- *Harvesting products.* To maximize the communications potential of completed work, program officers review drafts of policy, research, and field report papers produced by grantees. As drafts approach finalization, the Fund's executive staff participates in review meetings that, along with the contributions of external peer reviewers, help assure the quality of Fund publications.
- *Research and communications.* The Fund's internal research and evaluation and communications units make independent contributions beyond the work of program staff. The research and evaluation unit contributes to the proposal vetting process and, through independent survey and other research conducted in-house, produces knowledge and information that enrich the field. It also assures the quality of publications and assists in preparing issue briefs, fact sheets, and chart books that summarize findings for policy and professional audiences. The communications team works closely with program officers to harvest the work of grantees, accomplish publication either directly by the Fund or through peer-reviewed journals, disseminate reports to targeted audiences, work with the media, and maintain a web page that helps build an audience for the work of the foundation and its grantees.

- *Intramural program management.* The Fund recognizes that it can sometimes add value to important work most effectively by operating a program itself, rather than delegating the task to a grantee. The International Program in Health Policy and Practice (including Harkness Fellows), the Task Force on the Future of Health Insurance, and internally managed surveys and other research are examples. These instances illustrate the appropriateness of maintaining flexibility to conduct programs under special circumstances.
- *Staff performance reviews.* Annual reviews of individual staff members focus on past performance and objectives for the coming year, emphasizing value added to the work of grantees, contributions to a productive team-oriented work environment at the Fund, practical accomplishments, and professional contributions through publications, speaking engagements, and participation in important meetings and media events.

Two-thirds of project directors reported that staff work by the Fund improved their project designs and sharpened their proposals.

Staff work by the Fund during project design . . .

- Made the project design stronger 65%
- Had a neutral effect 29%
- Weakened the project design 5%



Harris Interactive, Inc., *The Commonwealth Fund 2002 Survey of Grantees.*

ASSESSING THE FUND'S SUCCESS IN ADDING VALUE

To add another perspective to its internal quality monitoring, the Fund recently contracted with Harris Interactive to conduct an independent, confidential e-mail survey of its grantees. The survey, carried out in September 2002, was designed to assess the extent to which this principal group of “customers” sees the foundation’s staff as adding value to their work. The project directors (approximately 200) of all board-approved grants awarded between 1995 and April 2002 were surveyed anonymously, with a response rate of 69 percent.

The survey questioned grantees about the contribution of Fund staff at different stages of their work and more generally in advancing knowledge and improving practice in their fields. The results offer an interesting portrait of how one value-added foundation model works in practice and is experienced by grantees. The survey instrument is available at cmwf.org, the Fund’s website.

Project Design and Proposal Development

Foundations seeking to add value to the work of their grantees need to be able to communicate their funding priorities and program strategies to prospective grantee clients. Seventy-six percent of survey respondents indicated that the Fund does this well.

The majority of grantees (80 percent) reported that the Fund’s staff and program strategies were influential in shaping the objectives and focus of their projects. Indeed, 70 percent of all projects were either Fund-initiated or jointly developed with the grantee. Fund staff were described as being notably helpful in several specific areas:

- assuring expert review of the project design (76 percent)

- providing professional expertise and experience (75 percent)
- sharing relevant information from the Fund's other grantees (68 percent)
- enhancing the policy relevance of projects (80 percent)
- identifying new audiences and developing dissemination strategies (57 percent)
- trouble-shooting and problem-solving (65 percent)
- developing efficient project budgets (66 percent)

The opportunity to meet with foundation executives, including the president, in the final stage of project vetting was endorsed as very useful by 79 percent of respondents. As indicated by the finding that 65 percent of grantees said that their projects were strengthened in the proposal development and vetting stage, the Fund's staff is adding value at this crucial stage of grantees' work.

Project Execution

Not all grantees require significant assistance in carrying out their projects, and most need help only in certain respects. Fund staff seek to concentrate their efforts where there is high risk or particular opportunity to add value. Appropriately, then, 65 percent of respondents said they received substantial assistance from staff in the execution of their projects.

Respondents reported several types of assistance as having been helpful:

- participation by Fund staff in project meetings and site visits (69 percent)
- assistance in developing survey instruments and other research protocols (60 percent)
- connecting grantees with experts in their field (65 percent)
- helping to organize meetings and conferences, recruit speakers, and commission papers (65 percent)
- promoting synergistic interactions with other Fund grantees (61 percent)

Communicating Results to Influential Audiences

The Fund's communications program is designed to assure that findings from sponsored work are harvested and disseminated to audiences able to put them to use in improving policy and practice. To assure rapid communication of highly topical information that professional journals might be slower to publish or not deem appropriate, the Fund conducts its own publications program. The Fund's grantees are prolific, producing 333 peer-reviewed journal articles and 223 Fund publications (reports, issue briefs, fact sheets, and chart books) over the seven-year period. Over the same period, 63 percent of the foundation's grantees published peer-reviewed journal articles, and 62 percent produced Fund publications.

To test the extent to which grantees value the publications program as an outlet for their work, the survey asked them to indicate their preference for publishing in peer-reviewed journals or through the Fund's publications program. Most respondents (52 percent) preferred a combination of the two routes, 29 percent preferred the peer-reviewed journal publication route, 13 percent preferred the Fund publication route, and 6 percent had no preference. Those preferring to use both channels emphasized equally "reaching targeted influential audiences" and "achieving a bigger impact on the policy community" (82 percent) and, again equally, "generating more

media attention” and the prestige value of the publication (53 percent). Of those preferring peer-reviewed journals, the most frequently cited reason was prestige (75 percent), followed by “reaching the targeted influential audience” (69 percent), “career advancement” (67 percent), and then “achieving a bigger impact in the policy community” (56 percent). “Speed and timeliness of publication” was the bottom-ranked reason (8 percent). Those preferring Fund publication, in contrast, cited most frequently “reaching the targeted audience” (69 percent), followed closely by “speed and timeliness of publication” (63 percent), “achieving a bigger impact in the policy community” (56 percent), and then “generating more media attention” (44 percent).

The Fund’s strategy is to work closely with grantees to strengthen their reports for publication and presentation. Survey respondents indicated that this aim is accomplished to a very significant degree: 39 percent reported receiving valuable analytic contributions, and 47 percent said the accuracy of analytic interpretation was improved by Fund review. The most significant value-added in publications, however, lies in making them accessible to targeted influential audiences: 71 percent of respondents cited the contributions of Fund staff in clarifying their overall message and findings, and 62 percent cited staff assistance in drawing out policy and practice implications. Project directors also said Fund staff provided valuable assistance in presenting research findings in a broader policy context (64 percent).

The survey queried grantees about the importance they place on different types of Fund communication activities (Fund publications, *CF Quarterly*, the *Annual Report*, web page, press releases and media events, forums and conferences, Congressional testimony, and

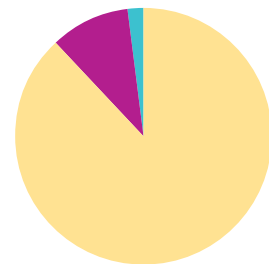
e-mail alerts), and the feedback received will be useful in guiding the future direction of the foundation’s communications program. Activities that received particularly high ratings were Fund publications (rated valuable for disseminating project results by 65 percent of respondents); the foundation’s website (63 percent); and Fund-sponsored forums, conferences, and other meetings (62 percent).

A principal rationale for the Fund’s publications program is the ability to bring project findings to the attention of influential audiences more quickly than can be done through peer-reviewed journals. While comments from several grantees indicated the need for further time-saving improvements, 59 percent of respondents gave the foundation high marks on the timeliness of publication and dissemination of project results.

The Fund’s communications program earned high marks from grantees for facilitating the presentation of their work to influential audiences, such as policymakers and other leaders in their fields.

The Fund’s efforts to present project findings to influential audiences were . . .

- Good or excellent 88%
- Fair 10%
- Poor 2%



The Fund's communications program goes well beyond publications, and Fund staff members devote considerable energies to arranging public forums for disseminating the results of sponsored work. Grantees view such activities as particularly valuable: 88 percent regard the Fund as effective in facilitating the presentation of sponsored work to influential audiences, and 87 percent rate it as effective in convening key stakeholders.

Just over 50 percent of project directors gave the Fund's communications program a strong overall effectiveness rating in disseminating results. High ratings were more common among grantees undertaking public policy work (71 percent) than among those pursuing action projects (30 percent). Although the discrepancy is understandable, the Fund will pay more attention to communicating the results of action-oriented work, especially those being generated by the foundation's health care quality improvement programs.

Benefits to Grantees of Working with the Fund

In selecting grantees, the Fund seeks out individuals likely to make continuing contributions to health policy and practice, well beyond the immediate project. Grantee responses to questions about the impact of working with the Fund on them, their staff, and their organizations indicate that the association is a mutually beneficial one. The majority of project directors (76 percent) reported that their association with the Fund benefited the development of their organization or department; the standing of their department within its organization (71 percent); their own professional development and advancement (78 percent); and the development of a member of their team (77 percent). Ninety-three percent of project directors said the Fund project would advance their future work.

Perhaps most significantly, 79 percent of respondents believed that the foundation's support helped to focus their work on well-targeted, timely contributions to the health policy debate or service improvements. Most (65 percent) said the Fund's support was important in gaining subsequent funding from other organizations. Given these responses, it is not surprising that one-third of the project directors ranked the importance of the work they undertook with the Fund more highly than work supported by other sponsors, and only 3 percent said it was less important.

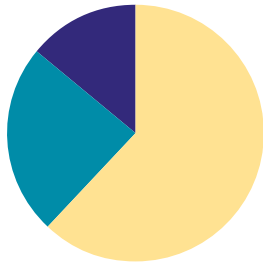
Project Performance and Impact

Asked about the success of their projects in producing expected products and their overall impact, most project directors whose work is complete reported that their work had met or exceeded expectations (80 percent). This assessment accords with the Fund's own scoring of the performance of completed projects. Most grantees (87 percent) maintained that their work with the Fund had made a significant contribution to health policy or service delivery. Project directors generally maintained that their work was influential with target audiences: 71 percent cited influence on public policymakers; 70 percent, on government agencies; 71 percent, on health services and policy researchers; 51 percent, on health care providers and delivery organizations; and 49 percent, on professional or trade associations. Less but still substantial influence was reported on managed care organizations (38 percent) and private insurers (33 percent).

A substantial majority of grantee respondents said that Fund staff contributed strongly to their projects' success.

Contributions by Fund staff to the project's success were . . .

- Important or extremely important 62%
- Somewhat important 24%
- Not important 14%



Harris Interactive, Inc., *The Commonwealth Fund 2002 Survey of Grantees.*

Fund Staff Performance and Contributions

Significantly, most grantees (62 percent) believed that the involvement of Fund staff in their projects had substantially increased the chances of successful completion. Fifty-two percent of project directors reported that Fund staff work had been important in assuring timely completion of their projects, and 62 percent said that foundation staff effort had significantly enhanced the impact of their work on targeted audiences. Most (62 percent) said they regarded Fund staff as having served as professional partners or expert consultants, and 65 percent cited significant intellectual contributions to their work. According to grantees, a major value-added function of Fund staff is synthesizing project results and translating research findings for policy-making audiences: 89 percent of grantees rated the Fund highly in that regard. The percentage of respondents saying that Fund staff had not been at all beneficial to their work in any of these respects was low.

A large majority (79 percent) of project directors reported that the Fund's internal research and professional

capacity strengthens the foundation's contribution to their work. When asked specifically about the foundation's internal research program, 82 percent of grantees were familiar with it; of those, most indicated high regard:

- 95 percent rated the internal research program highly on timeliness in addressing emerging issues
- 88 percent gave it high marks on the quality of research
- 72 percent said the foundation's internal research unit made a strong contribution to their work
- 86 percent viewed the research unit's contribution to achieving improvements in health policy and practice as significant

Fund staff also received strong effectiveness ratings in basic customer service to grantees: 87 percent of grantees ranked staff highly in responding to grant applications; 74 percent of respondents said staff were effective in monitoring grantees' work; 81 percent gave high marks for flexibility and responsiveness regarding needed project and budget changes; 69 percent said they received good feedback on reports and drafts; 80 percent gave staff high marks for "listening" to grantees; and 79 percent said valuable encouragement was received from Fund staff.

The survey revealed that 67 percent of project directors regard the Fund as more "hands-on" than other funders—an expected result, given the Fund's commitment to value-added grantmaking. The Fund is mindful of the potential for being too "hands-on," or engaging to the point of intrusiveness, and responses to open-ended questions indicated that this is a concern for some grantees. Even so, the majority of project directors compared the contributions of the foundation favorably with those of other funders.

Fund Strategy and Overall Effectiveness

Most Fund grantees are established leaders or rising stars in health policy and practice, and their views on the foundation's strategy and effectiveness are therefore to be valued. Ninety-two percent of grantees regard the Fund's choice of issues on which to work as good to excellent, 92 percent see the Fund as skilled in identifying emerging issues in a timely manner, and 88 percent say the Fund's program strategies are sound. More than half of grantees (52 percent) believe that the Fund is more effective than other funders in using grants to bring about positive changes in policy and practice, and 29 percent believe it is at least as effective.

Additional Insights

Responses to open-ended questions on the pluses and minuses of working with the Fund and on ways in which Fund staff could enhance their contributions to grantees' work were insightful. The most frequently voiced concern was the high cost of program officer turnover—a problem that the Fund has attempted to address but to which a modest-sized foundation is particularly vulnerable. A number of cautions were also received about being too prescriptive or slipping into micromanagement. A third cautionary theme concerned financial constraints posed by the Fund's modest size, one result of which, they maintained, was sometimes parsimonious project budgets to pursue ambitious agendas. Grantees, however, generally applauded the high quality of Fund staff and the knowledge, skills, and expertise they contribute to projects.

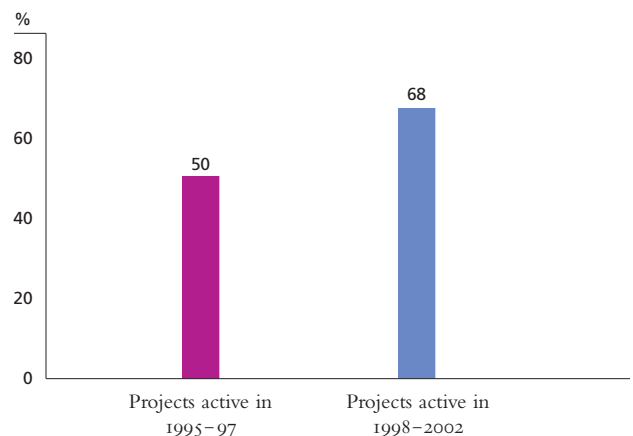
The survey results also offer some encouraging feedback that the Fund is getting better at adding value to the work it supports. A comparison of responses from two groups of grantees—those with active grants in 1995–97 and in 1998–2002—reveals a strong upward trend in many key areas. The share of

project directors saying that Fund staff helped improve their project designs, for example, rose from 50 percent to 68 percent, while those crediting Fund staff with important intellectual contributions to their work increased from 48 percent to 69 percent. Overall favorable ratings of the communications program rose from 36 percent to 53 percent. Among more recent grantees, 69 percent said that Fund publications were important vehicles for disseminating their work, compared with 49 percent during the earlier period.

The Fund's survey of its grantees, in sum, provides supporting evidence regarding the utility of a value-added approach in general and the Fund's application of it in particular. The Fund intends to gather the views of its other principal customer group—its target audience of health care policymakers, executives, leading practitioners, insurers, and media—in a confidential survey planned for early 2003.

The foundation is getting better at adding value to the work it supports: the share of project directors saying that Fund staff helped improve their project designs significantly, for example, rose from 50 percent for projects active in 1995–97 to 68 percent for those active in 1998–2002.

Grantees reporting that Fund staff helped improve their project designs significantly



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CHALLENGES FACING THE VALUE-ADDED FOUNDATION

The grantee survey, as well as the Fund's own internal review processes, make clear that the value-added foundation model, like any other, has its special challenges and pitfalls:

- *The difficulty of attracting and retaining highly skilled and well-informed professional staff.* Without an adequate complement of excellent staff, the value-added strategy cannot succeed. As indicated in the Fund's survey of its grantees, staff turnover at the professional level can lead to disruptive changes in program strategy, neglect of previously funded work, and loss of valuable experience and skills in grantmaking. The challenge of recruiting and holding staff members able to make significant professional contributions is particularly acute for foundations operating in competitive and high-cost fields such as health care.
- *The heightened risk of vulnerability to the "not invented here" syndrome.* The skilled, creative, and execution-oriented staff members required by value-added foundations are likely to have definite ideas about what needs to be done in their fields and how to do it. Staying with issues and programs long enough to make a difference—another tenet of good value-added strategy—can reinforce resistance to new ideas and directions. The Fund has addressed this issue with policies to assure strong representation of projects arising from "over the transom" requests and grantees who are emerging investigators or new to the foundation. More important, the foundation's recruitment policies are geared to identifying staff open to new ideas and skilled in working with others.
- *The potential for counter-productive interference in the work of grantees.* Precisely because of their attention to execution, making a difference, and accountability, value-added foundations can easily cross the line into micromanagement. Maintaining an open dialogue with grantee partners and being attentive to signs that the boundary has been crossed can help prevent well-intentioned but unhelpful steps from eroding partnerships.
- *Achieving the right balance between grants and staffing, particularly in times of financial constraints.* Value-added foundations confront tradeoffs in allocating their resources between grants and staff. There are no firm guidelines regarding the ideal balance, but care must be taken not to attempt to do work internally that is better outsourced to grantees and contractors. By the same token, if important objectives are not being achieved as expected by qualified grantees, a foundation should consider assuming responsibility for the activity internally.

These risks notwithstanding, the value-added model has much to recommend it. American society has benefited greatly over the past century from foundations that have concentrated their efforts, engaged in dialogue with practitioners in their chosen fields, and taken a robust approach to getting things done well. Similarly, foundations like the Fund can add value to their own endeavors by listening to grantees and other audiences and by attempting to apply rigorous standards of quality to all phases of their work.