

Stanford SOCIAL INNOVATION REVIEW

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Philanthropy & Funding

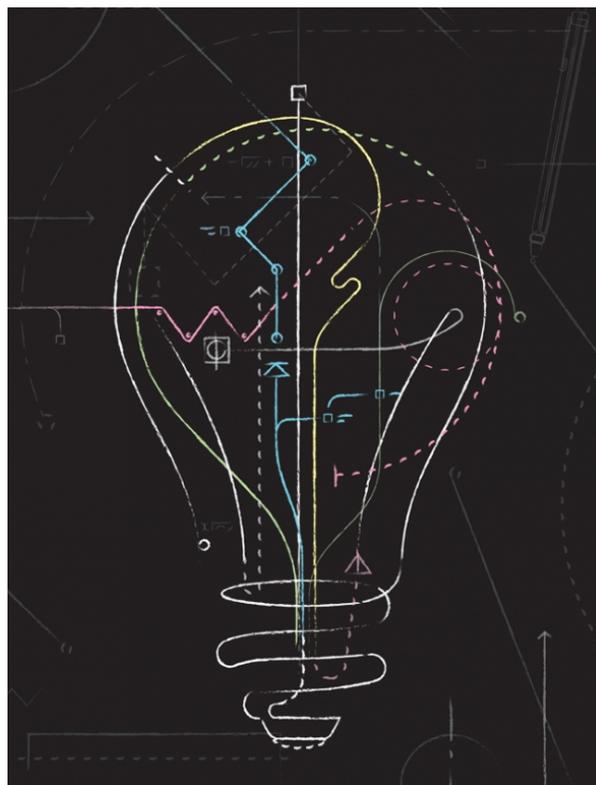
The Re-Emerging Art of Funding Innovation

As the strategic philanthropy movement has swept across the field, many grantmakers have lost their appetite for funding experimental and innovative projects. Recently, however, a number of funders have begun exploring how to deliberately reintroduce risk-taking into their processes and portfolios in search of breakthrough change.

By **Gabriel Kasper & Justin Marcoux** | Spring 2014

The term “innovation” is now used so widely and so vaguely that it has come to mean almost anything, or almost nothing at all. Long before it became a buzzword, though, innovation played an essential role in **philanthropy** (<http://www.ssireview.org/topics/category/philanthropy>). The field has a rich history of private funders using their resources to seed experiments with the potential to produce outsized social returns.

This innovative spirit prompted the **Robert Wood Johnson Foundation** (<http://www.rwjf.org/>) to support the regional pilots that spawned the national 911 system almost 40 years ago, at a time when ambulance services were provided largely by morticians (partly because their hearses were one of the few vehicles that could accommodate a stretcher, and partly because if you needed urgent trauma care, your odds of survival weren't high).¹ And it was philanthropy's willingness to take risks that spurred the **Aaron Diamond Foundation** (<http://www.adarc.org/>) to dedicate a large share of its resources to propel the field of HIV/AIDS research and establish one of the first dedicated AIDS research labs, which produced the drug cocktail that transformed the fight to control the virus in the late 1980s.²



(Illustration by Will Scobie)

But over the last decade, many funders have lost their appetite for experimentation and risk, even as they trumpet their desire to make big bets. The strategic philanthropy movement has swept across the field and helped funders align their programs and grantmaking with carefully designed theories of change to produce clear and quantifiable results. But the pendulum may now be swinging too far, to a place where foundations are willing to support only safe, established programs. Funders are often treating grantees as mere subcontractors, paid to execute pre-designated plans and outcomes.

Yet in many cases, existing approaches are proving insufficient to truly crack the intractable social and environmental problems that we face. The solutions to these large, complex issues—what design theorist Horst Rittel called “wicked problems”—are not yet known. So philanthropy needs to experiment and find new approaches to create breakthrough change.

Over the past few years, a small group of funders have begun to return to their roots by deliberately reintroducing innovation into their philanthropic processes and portfolios. They seek out ideas with transformative potential, take risks on less proven approaches, open themselves up to exploring new solutions, and recognize that innovation requires flexibility, iteration, and failure.

For more than a decade, the Monitor Institute³ has been working with many of these modern-day innovation funders—including the W. K. Kellogg Foundation, Rockefeller Foundation, David and Lucile Packard Foundation, Robert Wood Johnson Foundation, New Profit Inc., and Acumen. Over the course of our work, we have interviewed many of the world’s leading innovation strategists, corporate innovation specialists, venture capitalists, and social entrepreneurs to help us build a picture of what it means to find and fund social innovation.

Now, as part of Deloitte Consulting LLP, we have begun to convene an emerging community of practice focused on funding innovation. The effort began with a gathering of representatives from 10 early innovation funders in Chicago in November 2012. With support from the Robert Wood Johnson Foundation, the session brought together practitioners from the Bill & Melinda Gates, California Healthcare, David and Lucile Packard, John D. and Catherine T. MacArthur, John S. and James L. Knight, J. W. McConnell Family, Lemelson, Open Society, Robert Wood Johnson, and Rockefeller foundations, providing them with an opportunity to jointly explore emerging best practices in promoting social innovation. Although the group acknowledges that supporting breakthrough innovation is challenging and still much more of an art than a science, it’s becoming clear that there is a growing body of experience about what it takes to fund innovation, and how doing so differs from more traditional grantmaking.

Transformation and Experimentation

Funding innovation starts with a fundamental shift in mindset. Innovation funders intentionally trade off probability of success in return for greater potential impact. Instead of just supporting proven, incremental solutions, they focus on *transformation*—investing in approaches that may have a higher risk of failure, but the potential to be lasting and truly game changing if they succeed. “When you’re doing innovation, the first question is not ‘Is this going to work?’ but rather, ‘If it works, would it matter?’” says Eric Toone, the former principal deputy director of the US Department of Energy’s Advanced Research Projects Agency (ARPA-E).

In addition to distributing bed nets to reduce the spread of malaria, for example, an innovation funder might also pursue research to genetically alter mosquitos so they can’t transfer the parasite (an effort the [Gates Foundation](http://www.gatesfoundation.org/) is now actually exploring).⁴ With these types of high-risk, high-reward bets, the impact from one or two big, transformational successes in a portfolio can justify the opportunity cost of many failures. The approach is similar to venture capital, where the outsized returns of a single “home run” investment can offset nine or ten less profitable enterprises. (See “Rethinking Risk,” below.)

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RETHINKING RISK

Risk and reward stand at the core of the innovation process. But risk can be somewhat hard to understand in a philanthropic context, because money given away for social purposes is effectively gone, regardless of outcomes.

In general, risk for funders can take two forms: opportunity costs and reputational concerns. Opportunity costs refer to the price of diverting funds away from grants with more predictable impact and toward experiments with a potentially higher likelihood of failure. Reputational concerns arise if a foundation’s actions could tarnish the name or brand of the donor and potentially limit the organization’s ability to use its influence later in productive ways.

Either way, risk stands at the center of an inherent creative tension within the field. Endowments, by definition, are tools for conserving resources, and as stewards of those resources, foundations are obliged to make prudent use of their assets. Yet foundations are also uniquely positioned to take risks. Whereas businesses are responsible to their shareholders for quarterly financial returns, and governments are

accountable to voters for the careful use of public money, foundations have extraordinary discretion to experiment and try new things.

So as funders contemplate risk, it's worth remembering the idea's early roots. As investment writer Peter Bernstein noted in his book *Against the Gods*, "The word 'risk' derives from the early Italian *risicare*, which means 'to dare.' In this sense, risk is a choice rather than a fate." For the early seafaring adventurers, risk was a powerful choice that carried a strong sense of reward and opportunity, as well as danger and potential peril. The Spanish crown and Italian investors who backed Columbus's voyages knew he and his crew might never return, but the rewards of finding a new route to Asia pushed them to support him as he sailed into the unknown.

Over time, however, the concept of risk has largely shed its upside and become something to be avoided, mitigated, and managed at all costs. If funders are going to create social change, they will once again need to see beyond the potential for reputational damage and lost opportunities to rediscover the upside of risk, recognizing that innovation offers the potential for tremendous reward and opportunity as well.

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To find and support these types of breakthroughs, innovation funders are also re-embracing the importance of *experimentation* as a core part of their work. An experiment, in scientific parlance, is a test or a trial undertaken to make a discovery. And because wicked problems like entrenched poverty and climate change rarely have clear and technical solutions, innovation funders constantly seek out and test new approaches. "Van Jones [a senior fellow at the Center for American Progress and a former special advisor to President Obama] once told me that what's needed is for funders to stop giving *grants* and instead to fund *experiments*," says Linda Wood, senior director for leadership and grantmaking at the Evelyn and Walter Haas, Jr. Fund.

The idea of "funding experiments" requires foundations to develop a deep appreciation for iteration, failure, and learning. Social change is a messy and uncertain process, and innovations rarely follow a linear path. They move ahead in fits and starts, through repeated trial and error. And because it's hard to know the path forward from the start, supporting this type of experimentation requires an unusual degree of flexibility. Innovation funders often use an emergent approach, adapting their strategies as they learn more about issues and leverage points. They leave themselves open to possibilities. And they trust and support recipients as they learn and find new solutions that are built on the backs of early failures.

Innovation funders also experiment with their own strategies, trying continuously to challenge their thinking, adapt to changing circumstances, and take advantage of serendipitous opportunities. They work hard to improve their peripheral vision and to explore trends and strategies that may emerge from beyond their usual field of view. As Lori McGlinchey of the Open Society Foundations explains, “We don’t want our ideas to get stale. So we often look for ways to refresh and sharpen our thinking within the foundations. We’re encouraged to seek out interactions with contrarians—people who may be approaching the issues we work on from a different perspective. The question is how to increase our access to forwardthinking people and ideas that will help us anticipate future challenges coming five or ten years down the road.”

Injecting Innovation into the Philanthropic Process

Intentionally injecting these two interrelated innovation principles—transformation and experimentation—into philanthropic processes and systems can bring a greater degree of risk-taking, openness, and flexibility into funders’ work.

Although these approaches often take a different shape within each institution, innovation can typically be introduced at five different stages of the funding process: sourcing, selecting, supporting, measuring, and scaling. (See “Stages of Funding,” below.) To get a flavor of what these activities look like in practice, let’s dive into the stories of a few pioneering innovation funders.

Sourcing New Ideas | Finding ideas with the potential to create lasting transformation means reaching beyond the “usual suspects” to scout for promising new solutions.



(Illustration by Will Scobie)

When Bill Gates announced the Grand Challenges in Global Health initiative at the 2003 World Economic Forum in Davos, Switzerland, he was using a model inspired by mathematician David Hilbert’s grand challenge nearly a century ago. Hilbert’s list of important unsolved problems spurred innovation in mathematics for generations, whereas the Gates Foundation and its partners’ goal was to open up innovative thinking from across disciplines and fields—including many who historically have not been involved in health work—to develop new solutions that could lead to radical improvements in health in the developing world.

To encourage even broader participation and even less conventional approaches, the foundation then began a new program, **Grand Challenges Explorations** (<http://www.grandchallenges.org/Explorations/Pages/Introduction.aspx>) (GCE), in 2008. Open to all and requiring only a short, two-page application with no preliminary data, the

program provides those with the most promising new ideas \$100,000 to prove their concept and up to \$1 million to continue successful explorations. To date, the foundation and its partners have received more than 40,000 applications from around the world, and they have awarded more than 850 initial exploration grants in 57 countries, with 51 projects receiving follow-on support.⁵ Explorations have included everything from a breath test for tuberculosis to the design of the next-generation condom.

GCE's competitive model for sourcing has many advantages, notes Steve Buchsbaum, the deputy director of discovery and translational sciences, who oversees the program. The challenge program intentionally markets to problem-solvers across disciplines, thereby attracting a wide range of new investigators and perspectives to global health issues. In addition, the foundation finds that it receives more innovative and ambitious proposals because challenge applicants are aware that they are competing against others in the quality and potential impact of their ideas, rather than in their preliminary data and results. And by reviewing a wide array of applications, the foundation can better understand the full landscape of potential solutions in each challenge area, an effort that would otherwise be time-consuming and costly. Mayur Patel, vice president of strategy and assessment at the **Knight Foundation** (<http://www.knightfoundation.org/>), believes that contests can also help change entrenched foundation behavior, creating a "safe zone" to take risks and fund unconventional ideas.⁶

Many other funders, including the Knight Foundation, the X Prize Foundation, Ashoka Changemakers, and the Case Foundation, are experimenting with different types of prizes and contests. But these competitive approaches aren't the only way to find new ideas.

Innovation funders can use a range of other approaches to do the scanning necessary to identify promising perspectives and emerging new solutions. In some cases, that simply means that foundation staff members spend additional time outside their comfort zones, regularly tracking blogs or Twitter feeds of influencers in tangential fields, attending or hosting conferences where nontraditional ideas are being discussed, and listening to futurists and other provocative thought leaders to push the boundaries of their thinking.

Other funders deliberately build formal and informal networks of advisors—board members, experts, academics, grantmaking peers, grantees, investors, and others—that help them understand emerging trends and see into areas beyond their normal scope. The Rockefeller Foundation, for example, uses its grantees to help with scanning, providing additional funding to a group of "searchlight partners" who report back from the front lines about the latest trends and opportunities.

Other organizations, such as Ashoka, Echoing Green, the MacArthur Foundation, and the Open Society Foundations, use fellowship programs to find breakthroughs. They invest in innovative and entrepreneurial leaders, rather than in specific ideas, and provide those leaders with relatively unrestricted support to pursue their interests.

Selecting New Ideas | Once a funder identifies promising ideas, the next question is how to select the ones to fund. Because innovation funding is rooted in taking risks on less-proven approaches, grant decisions must balance rigorous analysis with intuition about a project's potential for transformative change. This is similar to the approach venture capitalists take. "We have to constantly remind ourselves of our purpose because it can be so easy to slip into risk aversion. If we aren't taking big swings, then we aren't doing our job," says Will Rosenzweig, co-founder of Physic Ventures, a health-oriented venture capital firm in San Francisco.

Like venture capitalists, foundations that choose to fund unconventional ideas can easily shy away from risk during the vetting process. Innovation funders still conduct thorough due diligence and uncover whatever is knowable about a new project, but they try hard not to let the need for proof and certainty screen out potentially transformative opportunities.

This isn't to say that funders blindly trust some sort of magical, innate instinct for knowing the right projects to choose. Recent research on decision theory suggests instead that what we often call intuition is actually the result of the accumulation of experience and clear feedback over time—we build our ability to recognize patterns of success and failure over years of practice and experience. So an important part of the vetting process for funding innovation relies on trusting individual intuition and building judgment over time, rather than on the safety of group consensus.

In the Gates Grand Challenges Explorations, after initial screening by internal staff for relevance, the foundation uses a "champion-based" review process (http://www.grandchallenges.org/GCGHDocs/GCE_Report_2012.pdf) that allows an idea to receive initial funding with the strong support of only one reviewer. The foundation selects an external panel of innovators, and each member reviews a subset of applications and gives a gold award to the best idea and a silver award to other promising ideas. The foundation then collects all the gold awards and funds those projects—trusting the experience and intuition of its experts—and views the silver awards in aggregate to decide what additional projects to fund. The system is deliberately designed to ensure that the advisory group doesn't screen out unconventional ideas. Of the 850 initial exploration grants, approval for more than one third was based on the judgment of just one reviewer.⁷

Still, the competition model isn't right for all situations. Funders who have tried using contests and competitions often find it difficult to boil down challenges to a simple, solvable problem, and the GCE program and others have experienced confusion among problem solvers when challenges could not be precisely articulated. In other cases, funders have found the workload of processing a large volume of applications difficult, and many foundations have struggled to attract enough problem solvers without the leverage of a strong global brand like the Gates Foundation—although platforms such as the X-Prize, InnoCentive, and Ashoka Changemakers can now help funders establish systems to help screen proposals and publicize competitions. And even when funders use these types of platforms, it remains unclear whether contest “winners” end up exceeding the quality of more traditionally sourced grantees.

Although contests may not be the best approach for every foundation, the Grand Challenges Explorations program nevertheless highlights many of the essential elements needed to help funders find and vet breakthrough ideas: casting a wide net; engaging unconventional problem solvers; and allowing high-risk, high-reward ideas to pass through the selection filter. Once those ideas are through the filter, the challenge becomes how to support the new ventures as they develop.

Supporting Innovation | A short drive from the heart of Silicon Valley, the California Healthcare Foundation (CHCF) aims to invest in ideas and innovations that improve health care for all Californians. CHCF's Innovations for the Underserved Program and the Health Innovation Fund support market-based solutions that bring health care breakthroughs to vulnerable populations. “We strongly believe that foundations can play a role in funding companies developing lower-cost, high-quality care for the underserved,”⁸ says director Margaret Laws. About half of the program's funding is dedicated to investing in for-profit companies chosen from a network of investors and health care professionals.

Virtually all foundations try to support the work of their grantees, but CHCF and other innovation funders take an especially hands-on approach in helping shape and guide early-stage ideas as they move from concept to implementation. CHCF, for example, hosts events at which recipient companies are able to present prototypes to doctors and low-income patients, who then share feedback and insights about their individual user needs. In addition to exposing health care professionals to promising new solutions, the events provide early feedback that helps recipient companies iterate faster and significantly improve product design. This type of assistance often requires extra staff time and specialized expertise on the part of the funder, but the foundation recognizes that early ideas are often malleable, and that targeted interventions that better connect services with potential users can dramatically increase the chances of success.

Measuring Progress | Innovation funders can also play a similarly formative role in helping recipients assess progress toward their goals. Foundations need to be careful not to mistake wrong turns for roadblocks, and to account for the fact that successful innovations often follow a long and circuitous path. Many innovation funders have begun to embrace Michael Quinn Patton's idea of developmental evaluation, which includes broad and ongoing participation in the measurement process by foundations, nonprofits, service partners, and clients, with the intent to foster iteration and improvement, not to judge success or failure. Over time, foundations may measure individual process milestones that help them divert funding from weaker innovation experiments and guide it to the most promising ideas. And although the measurement of social impact is a perennial challenge, the funding of innovation adds a unique tension between "failing fast" and allowing enough time for ideas to percolate, iterate, and emerge.

CHCF's Health Innovation Fund (<http://www.chcf.org/innovation-fund/investment-criteria>) addresses this tension in a number of ways. The fund starts with an explicit goal: investing in companies that have the potential to serve 100,000 Californians or to deliver \$25 million in annual cost savings to the California healthcare system.⁹ By starting with a clear target, the fund and company agree on the goal toward which everyone is working. Then they work together to set milestones for progress toward that goal, which can include measures such as securing follow-on funding, achieving specific numbers within target populations, or developing critical partnerships. For each investment, the fund also makes a grant for an independent evaluation, ensuring a fair and critical progress assessment. The fund also typically stages its investments, providing smaller amounts of capital when outcome information is scarce and then following with additional resources if the company shows signs of success.

Scaling Up Successes | Because innovation funders are typically supporting small, early-stage ideas, they also need to work more deliberately to help scale up these programs. Innovation funders often help their recipients develop partnerships with market-based investors, governments, and other social sector funders to build necessary expertise and growth capital. The venture philanthropy fund New Profit Inc., for example, provides strategic and growth-planning support along with a multi-year financial commitment to help portfolio organizations scale up their programmatic and systemic impact. Meanwhile, impact investments from funders like the W. K. Kellogg Foundation have helped organizations such as Revolution Foods (which provides healthy and sustainable school lunches) form critical marketplace relationships with traditional venture capital investors.¹⁰ And seed funding from the Robert Wood Johnson Foundation's Pioneer Portfolio helped Project ECHO (a new approach to providing virtual health-care education and delivery in remote communities) prove its model and leverage large implementation grants from the US Departments of Veterans Affairs and Health and Human Services.¹¹

Whereas partnerships such as these can help scale up individual projects and organizations, other innovation funders focus less on growing specific organizations and more on broadly promoting new ideas, processes, or approaches. The Rockefeller Foundation has taken such a tack in its work with social impact bonds. Rather than simply funding individual bonds, the foundation sponsored research to understand the new investment vehicle and partnered with the Kennedy School at Harvard to create the **Social Impact Bond Technical Assistance Lab** (<http://www.rockefellerfoundation.org/newsroom/state-local-governments-receive-2>) (SIB Lab). With funding from the foundation, the SIB Lab then ran a competition offering free technical assistance to states or municipalities with the strongest social impact bond plans, garnering 28 applications and naming six winners across the United States.¹² The foundation has also supported intermediaries, such as Social Finance and Third Sector Capital Partners, and has funded the Nonprofit Finance Fund to serve as an information hub for the field and to conduct boot camps for nonprofits looking to test the bonds as a new revenue stream.

Regardless of the approach, many innovation funders find similar challenges in their efforts to scale up emerging ideas. Scaling up almost always takes more time and money than foundations initially estimate. One venture capitalist candidly told us that funders need to double the amount of time and money they initially think scaling up an innovation will take. And although funders want both to try new ideas and to provide additional funding to successful ones, for relatively small innovation portfolios, scaling up can quickly crowd out experimentation. Finding partners can help ease this tension. New people bring new perspectives, allowing foundations to stretch their strategies, and providing cover if investments head south. There was uniform agreement across corporate innovation units, venture capital firms, government agencies, and foundations that the search for scaling partners must begin early, often as soon as a project is funded.

Creating the Infrastructure for Innovation

Many innovation funders focus on finding, vetting, and supporting specific breakthrough ideas within their designated issue areas, and others have chosen to invest in strengthening the broader ecosystem of innovation. To use a botany analogy: instead of growing individual plants, these funders invest in building a greenhouse that can help many plants thrive.

One such greenhouse funder is The Lemelson Foundation, founded in 1992 by Jerome Lemelson, one of the twentieth century's most prolific inventors.¹³ Rather than focusing on innovation in one issue area, The Lemelson Foundation works to build the infrastructure for promoting invention and innovation around the world. Its executive director, Carol Dahl, explains that the foundation supports systems that promote

inspiration among a younger generation to dream big, *education* to develop the skills needed to create something new, and *incubation* to grow inventions into self-sustaining enterprises.

The foundation's support for the [Jerome and Dorothy Lemelson Center for the Study of Invention & Innovation](http://www.lemelson.org/resources/success-stories/lemelson-center%E2%80%99s-invention-play) (<http://www.lemelson.org/resources/success-stories/lemelson-center%E2%80%99s-invention-play>) at the Smithsonian's National Museum of American History, for example, aims to encourage inventive creativity in young people. The center engages children and their families by making invention fun through award-winning programs like Invention at Play, which investigates how four types of activities—tinkering, make-believe, social play, and puzzles—can help develop creativity in children. Beyond the millions of annual visitors to the center, the foundation has also distributed educational materials to more than 35,000 US classrooms.¹⁴

The Lemelson Foundation further develops the infrastructure for education and incubation through programs like the [National Collegiate Inventors and Innovators Alliance](http://nciia.org/about/our-mission) (<http://nciia.org/about/our-mission>) (NCIIA). With a membership of nearly 200 higher education institutions, the NCIIA allows schools to apply for funding to create new classes on applied invention where students gain experience in creating new products and approaches. Student-faculty teams can then apply for three-stage incubation grants that help them plan, refine, and implement their projects by providing financial support along with specialized training and potential connections to follow-on investors. Since its inception in 1995, NCIIA has funded 341 experimental collegiate courses and 465 exploratory teams, which have created 180 new corporations and raised \$365 million in follow-on funding.¹⁵

Other innovation funders have also embraced this greenhouse approach. The J. W. McConnell Family Foundation supports Innoweave, an online platform that shares resources to help nonprofits build their innovation capabilities, and Social Innovation Generation, a cross-sector partnership between the foundation and three national institutions that aims to build systems and interest that can help develop, encourage, and support continuous social innovation in Canada. The Knight Foundation provided substantial seed funding to launch the MIT Center for Civic Media, which helps incubate community-based news experiments. And the Rockefeller Foundation has supported the development of tools and methods that promote social innovation—for example, funding the adaptation of InnoCentive, an online platform that crowdsources innovation to a broad network of problem solvers, to address social challenges.

Organizing for Innovation

Even as funders change their processes to support individual and systematic breakthroughs in the social sector, they also need to pay attention to the way they allocate resources and structure their innovation activities—how they *organize* for innovation.

When the Robert Wood Johnson Foundation (RWJF) adopted a new “impact framework” in 2003 that focused its giving on six critical targeted strategies, the foundation also created a seventh team, the Pioneer Portfolio, to search for fundamental breakthroughs in health and health care as a complement to the more targeted program areas. “The other teams at the foundation are laser focused on their goals,” explains Brian Quinn, assistant vice president of research and evaluation at RWJF. “But when you’ve got your head down, doing everything you can to push toward a set of ambitious objectives, sometimes you can miss opportunities for impact that are emerging outside your areas of concentration. Pioneer helps the foundation continuously look up and look out into the future to see potential game-changers.”

Establishing this type of separate innovation group—an approach also espoused by many corporations looking to systematize their innovation work—has some distinct advantages. Specialized innovation units typically have the benefit of being removed from day-to-day activities and hierarchies, allowing staff a high degree of autonomy to explore and focus their attention on the changing external landscape and emerging trends. They are able to create an environment that emphasizes taking risks, encourages open inquiry and experimentation, allows for iteration and the slow progress of new ideas, and learns from failure.

But creating a separate innovation team isn’t the only way to introduce innovation into an organization. Many innovation funders are instead seeking ways to embed innovation capabilities throughout their organizations and operations. In the corporate world, companies such as 3M have attempted to build a widespread culture that supports innovation by investing heavily in research, promoting cross-department projects, and allowing engineers to devote as much as 15 percent of their time to exploring tangential ideas.¹⁶ These approaches have yielded many of 3M’s most innovative products, including Scotch Brand Tapes, Post-it Notes, and Scotchgard Fabric Protector. Within the philanthropic space, the **Case Foundation’s “Be Fearless” campaign** (<http://befearless.casefoundation.org/fearless-approach>) encourages program officers and grantees across the foundation to set transformative goals, experiment, learn from failures, and connect across issue areas.¹⁷

Both separate and embedded innovation models have their challenges. Although members of specialized innovation units are often able to develop a highly entrepreneurial culture and specific expertise, how the team’s discoveries are translated to the work of the rest of an organization can often remain a challenge, even with concerted effort to bridge the gap. Because these “skunk works” units are specifically tasked with

innovation, there is an implicit suggestion that the rest of the organization is not, creating the impression of a set of “cool kids” and innovators who then can have trouble integrating lessons and new ideas with the rest of the organization.

Alternatively, one of the risks of embedding innovation into an organization is that it gets lost when added to the to-do list of already busy staff. As Diana Scarce, the director of evaluation and learning at the David and Lucile Packard Foundation, explains, “It’s going to be hard unless we can make innovation fit within our program officers’ ‘day jobs.’ Or, better yet, how do we reframe what that ‘day job’ is?”

Regardless of which approach a funder takes, organizing for innovation also means making very real shifts in how budgets and time are allocated. Sourcing for innovation, for example, requires a time investment to allow staff to scan for trends and adjacent developments, attend conferences, make connections, actively build networks, and share learning. And funding innovation may require additional budget as well, for items such as travel, expert advice, convenings, evaluations, and developing the infrastructure to enable internal networking and cross-disciplinary creation.

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It’s also important that foundation leaders and trustees make a commitment to funding innovation on an ongoing basis. The Pioneer Portfolio receives a dedicated annual budget for its investigations, as opposed to regularly seeking approval for each funding opportunity it wishes to pursue. Other foundations note that without a dedicated budget, it can be difficult to make the case for an uncertain, high-potential idea next to grants that produce more definitive (although often more incremental) improvement. And whereas foundations can dip their toe in the water of supporting innovation, a committed approach requires foundation leaders to balance making clear progress on urgent needs with taking a chance on higher-risk transformational grants.

EIGHT WAYS TO INJECT INNOVATION INTO GRANTMAKING

Not everyone is ready to launch an innovation fund or to start comprehensively shifting an organization’s culture. There are, however, some simple ways that funders can begin to embed innovation principles in their work. Here are a few baby steps one can take to get started:

1. Make deliberate out-of-strategy grants. Dedicate 10 percent of your grantmaking budget to support projects that seem promising but don’t fit neatly into your strategy. Each quarter, hold a meeting to discuss what has been learned from this “out-of-strategy” grantmaking.

2. Ask your grantees. Grant recipients bring a perspective on the field very different from foundation staff's. Solicit ideas from your grantees about emerging ideas and who is doing work that is pushing the envelope.

3. Assess your portfolio. Review your grantmaking portfolio, giving each grant a subjective score for its level of risk and its potential for reward. Plot the results on a graph and have a conversation with stakeholders to discuss whether you are taking enough risks and what type of balance between risk and reward feels appropriate.

4. Tap into your network. Select a small, informal group of advisors, and every six months, ask them to tell you about the most interesting new ideas that they're seeing, whether the ideas are a fit for your grantmaking or not.

5. Use your special opportunity fund. Many foundations have a fund that is used to support pet projects from board members and other ad hoc requests. Use a portion of that fund to explore a new area that is tangential to your primary strategies but shows potential.

6. Host an innovation contest. Hold a conversation with staff about how they define innovation, and then run a contest to identify one or two grantees that the staff feels are most innovative. Provide the winner(s) with a small, flexible grant to encourage the behavior.

7. Bring in a futurist. There are many experts who look ahead, trying to see and understand trends and patterns as they emerge. Invite one of these forward thinkers in to talk with your board or staff to see if they prompt new thinking.

8. Follow provocative thinkers. Find 10 people who are exploring new concepts and approaches and follow them via Twitter or blog posts, cataloging the ideas they mention. Then host a discussion among staff or board members to see what new thinking the ideas might prompt.

Integrating Innovation into a Philanthropic Portfolio

Even as funders begin to embrace the benefits of deliberately funding innovation, it's important to recognize that this isn't necessarily the right approach in all cases, or for all funders. In their *Stanford Social Innovation Review* article "[Embracing the Paradoxes of Innovation](http://www.ssireview.org/articles/entry/embracing_the_paradoxes_of_innovation)

(http://www.ssireview.org/articles/entry/embracing_the_paradoxes_of_innovation),” Zia Khan and Kippy Joseph of the

Rockefeller Foundation note that proponents of innovation, in making the case for the need to find new solutions, have inadvertently helped to create “a kind of cult” where “innovation has become the default mode for people in almost any situation where some change or improvement might be desirable.”¹⁸

For issues where existing solutions are already working, it’s often more important to focus on scaling up and incrementally improving tested approaches, rather than on experimenting with new approaches. Even in areas where new solutions are needed, Christian Seelos and Johanna Mair of the [Stanford Center on Philanthropy and Civil Society](http://paccenter.stanford.edu/) (<http://paccenter.stanford.edu/>) remind us that practitioners need to “treat innovation as a process, not primarily as an outcome.”¹⁹ The most effective innovation strategies pay special attention to the methods and systems needed for sourcing, selecting, supporting, measuring, and scaling new ideas.

It’s also important to understand that funding innovation is not an *alternative* to strategic philanthropy. On the contrary—funding innovation is an *essential part* of strategic philanthropy. As Kristi Kimball, executive director of the Charles and Helen Schwab Foundation, explains, “A necessary piece of strategy is actually reserving some of your resources to go outside your strategy, so that you are continually adjusting to new ideas and finding even more transformative ways of doing things.” Or as Jeff Ubois, a program officer at the MacArthur Foundation, puts it, “Peripheral vision is a necessary complement to focus.”

It’s helpful to think of funding innovation as an important component of a truly strategic portfolio. Much as financial investors try to build a diversified portfolio—placing the majority of their assets in investments with safe and steady returns, but using a smaller percentage for higher-risk opportunities with the potential to produce outsized rewards—funders too should consider using a portion of their resources to support innovation alongside their investments in more consistent and proven approaches. The trick, of course, is for each grantmaker to figure out the right balance for its portfolio, given its predilections for risk and reward.

There’s no single answer for the proper balance, but Google executive chairman Eric Schmidt provides some insight on this subject when he refers to his 70/20/10 rule for managing innovation. He contends that 70 percent of management’s time should be dedicated to core business tasks, 20 percent should be focused on projects related to the core business, and 10 percent should be dedicated to unrelated but high-potential new businesses.²⁰

These specific figures—70 percent on the core, 20 percent on adjacent spaces, and 10 percent on radical innovation—may or may not be right for philanthropic portfolios. But they nevertheless serve as a starting point as funders try to find the right balance between supporting core programs and funding innovative new

ones. At the very least, the ratio highlights the drawback of focusing 100 percent of resources on core activities alone, which can close off a foundation to important new opportunities and impact. And as an emerging group of innovation funders is beginning to demonstrate, embracing exploration, experimentation, and risk may actually help strategic philanthropy find the right balance and do an even better job of tackling the world's most daunting social problems.

Notes

¹ http://cspcs.sanford.duke.edu/sites/default/files/descriptive/emergency_medical_services_program.pdf

² http://cspcs.sanford.duke.edu/sites/default/files/descriptive/aaron_diamond_aids_research_center.pdf

³ Monitor Institute is part of Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

⁴ <http://abcnews.go.com/Technology/story?id=5211497>

⁵ http://www.grandchallenges.org/GCGHDocs/GCE_Report_2013.pdf

⁶ http://www.ssireview.org/blog/entry/six_ways_contests_improve_philanthropy

⁷ http://www.grandchallenges.org/GCGHDocs/GCE_Report_2012.pdf

⁸ <http://www.chcf.org/programs/innovations/program-goal>

⁹ <http://www.chcf.org/innovation-fund/investment-criteria>

¹⁰ http://www.huffingtonpost.com/2012/10/15/revolution-foods-impact-investing_n_1968165.html

¹¹ <http://hscapp.unm.edu/calendar/output/index.cfm?fuseaction=main.release&EntryID=10679>

¹² <http://www.rockefellerfoundation.org/newsroom/state-local-governments-receive-2>

¹³ <http://www.lemelson.org/>

¹⁴ <http://www.lemelson.org/resources/success-stories/lemelson-center%E2%80%99s-invention-play>

¹⁵ <http://nciia.org/about/our-mission/>

¹⁶ http://multimedia.3m.com/mws/mediawebserver?mwsId=66666UF6EVsSyXTtlxMt4xT6EVtQEVs6EVs6EVs6E66666--&fn=3M_COI_Book.pdf

¹⁷ <http://befearless.casefoundation.org/fearless-approach>

¹⁸ http://www.ssireview.org/articles/entry/embracing_the_paradoxes_of_innovation

¹⁹ http://www.ssireview.org/articles/entry/innovation_is_not_the_holy_grail

²⁰ http://money.cnn.com/magazines/business2/business2_archive/2005/12/01/8364616/index.htm

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