

An Interview with **Nancy Roob**, President of the Edna McConnell Clark Foundation

by the editors

Editors' note: In the following interview, Nancy Roob, president of the Edna McConnell Clark Foundation, describes what it took to shift the foundation's approach to grantmaking—narrowing it to one field and many fewer grantees, but deepening its practice significantly.

NPQ: Nancy, when you first joined the staff at the Edna McConnell Clark Foundation (EMCF), the foundation funded an array of five fields. How did you get from that to just youth development?

Nancy Roob: That change occurred in the late 1990s under the leadership of Mike Bailin, my predecessor, and it came out of a process that the board went through. The board made a decision that, given our limited assets and the desire to know that our dollars were making an impact, we should focus on one substantive programmatic area in contrast to the five we had been in.

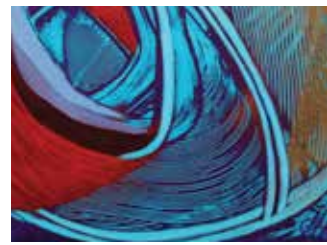
NPQ: So how did this strategy of intensive capital investment in a relatively small number of organizations come about?

NR: When we initiated this strategy over a decade ago, we had the same intention we have today—which is to find organizations that are making a transformational difference in the lives of the most disadvantaged young people, and to invest in their efforts to improve the quality of what they're doing and scale it up, so that significantly larger numbers of kids can be served and their lives can be dramatically improved.

We believe that one of the major constraints on nonprofits trying to expand what they're doing—or even just to operate at their normal capacity—is not having the resources they need in hand and up front before they launch their growth plans. So, typically they're chasing the dollars while they're

trying to execute. One of our core principles from the beginning was that we would help organizations put together their business plans for three-to-five-year periods; we would provide multi-year investments against the performance metrics of these plans; and we would make these commitments up front. The metrics were clear, and we believed that if we helped our grantees put these great plans together—and EMCF made very large investments, which at the time were considered really big investments compared to those we *had* been making and to what was typical for the organizations receiving these grants—other funders would also support these plans.

Around seven years ago, however, we were finding that while grantees were eventually able to raise the money to fully fund their plans, it was a long, hard haul. They were going into year two and three of their plans still challenged with raising money while they were trying to execute. This made it really hard for them to succeed with their plans, and really hard for us as an investor to be confident that our investment approach was adding value. The one major exception during that period was Harlem Children's Zone (HCZ). At the outset, it was able to secure all the capital needed for its first growth plan, due to the leadership of board chair Stan Druckenmiller and of Geoffrey Canada. I'm not suggesting this was necessarily easy, but they did it and it made a difference—HCZ was able to execute their plan confidently and meet all their growth objectives much more rapidly.



When EMCF narrowed its focus to fewer programs in order to deepen its investment, the strategy led to a greater impact on its field of focus—youth development.

As Nancy Roob describes it, "What has been powerful about growth capital aggregation is that the grantees we're funding have been able to execute against their own theories of change."

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At that point we determined that we didn't know if we could completely fulfill the potential promise of our strategy if we weren't able to help more of our grantees secure growth capital up front in a more productive way. And that was when we launched the Growth Capital Aggregation Pilot, with three grantees: Citizen Schools, Nurse-Family Partnership, and Youth Villages. It was just a big idea and a guess at that point.

NPQ: *So how did you go about approaching other funders to get involved in this big plan?*

NR: Well, let me back up and say that, in addition to knowing that we needed to help grantees raise capital in a more productive manner, we felt that in some cases we weren't sizing the amount of capital they needed in a big enough way. Even though we thought we were making pretty large investments—and they were much bigger on average than most foundation grants to youth-serving organizations—they weren't big enough to get the job done.

NPQ: *Give me an idea of the size of the grants that were not big enough.*

NR: Our average might have been \$5 million over three to five years. We could invest more ourselves, but we also knew we needed to help grantees make a better case for themselves so other funders might also invest.

Take, for example, Youth Villages. They developed a growth plan that showed where an infusion of \$40 million in growth capital would leave them at the end of four or five years. They were able to demonstrate how with that growth capital they could reach a different level organizationally, where they would no longer be dependent on that growth capital, which would be replaced by ongoing and more renewable revenue streams—like government contracts that would then fund Youth Villages at that higher level.

The growth capital was designed to get them through a period of executing their plan. So, for instance, if they're going into new states, and they've got a stretch of time when they're trying to create the contracts they need to ensure that

public dollars are going to be directed to their services in these states, they could use this growth capital as a bridge. But, at the end of the plan, essentially all of the money that had gone into that \$40 million pot would be spent. It was important for our board to know that their commitment wasn't forever—that there was a way to invest strategically against a set of metrics and help an organization get from one level to the next. And we had an assumption that this was going to be really important to other investors, too.

Then we just rolled up our sleeves, basically, partnered with our grantees, and went out and talked with folks. Fundraising is purely a relationship-based endeavor, so we went to folks with whom we had relationships and who were interested in our work, and, most importantly, were interested in the work of Youth Villages and Nurse-Family Partnership and Citizen Schools, and their compelling growth plans.

We were very agnostic from the beginning about how investors' money could and should flow to grantees. What we wanted was for the money to flow to the grantees, and we didn't care how it flowed. We cared about a very simple set of things: that a plan had clear performance metrics and that all the money coming in was up front. So when we went to our board to recommend essentially tripling the size of our normal investments in these three grantees, we basically said to them, and to the grantees, "Okay, we know what our dollar amount will be, but the deal is not done until all of the money is raised." This was a very different way for us to do our business. We gave ourselves eighteen months to raise the money—that's what I told the board—and we raised it in nine. It was breathtaking—though I should add this happened before the economic downturn.

NPQ: *That's phenomenal. Were you surprised?*

NR: I was profoundly surprised in one way but not so surprised in another. We believed deeply that a better path for capitalizing nonprofits was needed, and we knew we and our grantees had a great roadmap to get there. But we had to take on a very unusual set of things to succeed, which made it an exciting and significant breakthrough.

NPQ: *In retrospect, what were the mistakes you learned the most from along the way? Or, what were the critical turning points (like the one you just mentioned)?*

NR: I think our biggest mistake was our very naïve assumption at the start that other investors were going to fund these plans because we were funding them, because the plans were great and the grantees really owned them, and because the performance metrics provided for accountability.

NPQ: *So you actually had to be involved in the fundraising? Is that what you're saying?*

NR: Well, it makes so much sense in hindsight. Today, many more nonprofits have business plans, but ten years ago that was not the case. It was very powerful and transformative for these nonprofits to have business plans and to have gone through the planning experience, and we were really compelled by them, but it was out of the norm. And we underestimated the challenge that funding in this new kind of way—investing in plans with performance metrics—would present to foundations and other philanthropists.

NPQ: *What other kinds of critical decisions changed the way you did something? You made a decision that you did not want to be deeply involved in decision making about those business plans, right?*

NR: We made a decision that the grantees absolutely have to own the plans. So we sit at the table and partner with the grantees while they're going through the planning process, but we're really clear from the beginning that their boards and their management teams have to own the plans. And I think, for the grantees for which we've aggregated capital, we've gotten that right for the most part. Another critical decision we made that could have been a big mistake was to be flexible about structure. We kept our eye on the bottom line, which was that all the money needed to come in up front at the same time, but we had a lot of iterations of how the money should come into the common effort, and we scratched them all.

We could have made a big mistake if we had overly prescribed this. We would have lost a lot of relationships with funders who were psyched to put their money in and happy to put it in up front, but wanted to do it in their own particular way. Being flexible and accommodating like this isn't the easiest thing to do when you're holding yourself accountable to your own board for a set of things, but our trustees were willing to support this, believing it was an experiment worth taking.

NPQ: *What are the points that you believe you have made through this experiment?*

NR: Some of it is really basic stuff, but fundamentally important. It's hard to help organizations secure up front the resources they need to deliver on performance, yet we've seen where this makes a huge difference. There's a correlation between having the resources you need in hand and getting the results. So I think there are two challenges. One is how money comes into nonprofit organizations. I think this basic principle of funding against performance metrics, funding in full and up front, and then holding organizations accountable for performance really works. The other is sizing investments appropriately to get the results you—and the grantee—want. I think underfunding is very prevalent in the sector. What has been powerful about growth capital aggregation is that the grantees we're funding have been able to execute against their own theories of change, and are not constantly getting pulled in ten different directions by ten different funders' interests.

As a result we've got real solutions that have the potential to dramatically change the life course of kids in this country. Youth Villages and Nurse-Family Partnership, for example, are serious solutions. And we wouldn't have them if they had been funded in ten different ways and couldn't get the money together to stay the course in executing theories of change on their own, based on their own deep expertise with young people and what it really takes to help them succeed.

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