The Transformative Impact Grid:

A Tool for Evaluating Potential Investments & Measuring Outcomes

By: Bruce Hoyt, Senior Vice President, Investments

GARY COMMUNITY INVESTMENTS
Working together for Colorado's children

For more than 40 years, Gary Community Investments (GCI), which includes The Piton Foundation, has been making philanthropic investments across Colorado in an effort to improve the lives of low-income families. But, after investing $220 million in local communities over four decades, we came to a realization that has significantly altered the way we think and invest: traditional philanthropy alone isn't enough to create the transformative change we're seeking.

Since 2011, GCI has been pursuing a total portfolio investment approach, aligning all of our assets with our mission, regardless of whether an investment is made using philanthropic, market-rate or near market-rate capital. We are taking a blended approach to achieving social impact and financial returns because, unlike most philanthropic foundations, we do not seek to exist in perpetuity. By approximately 2035, GCI intends to fully invest all of our financial assets into community and business vehicles that are focused on solving the challenges facing Colorado's low-income families.

But how will GCI transfer our corpus into high-performing, transformative organizations that have the ability to create and sustain our mission after we no longer exist?

We developed the Transformational Impact Grid (TIGR), a visual tool to help us evaluate new opportunities, clarify expectations for investment results and report on outcomes. The TIGR is reshaping and strengthening GCI's long-term investment strategy, serving as an internal guide to help ensure that the grants, program-related investments and full, for-profit community investments we make have the power to create meaningful change to benefit low-income children and families.

Introducing the Transformative Impact Grid

To accomplish our sun-setting goal, GCI's staff is challenged with identifying and creating a portfolio of high-impact organizations, including non-profits, government entities and for-profit businesses, that are focused on issues related to school readiness, youth success, family economic security and community economic development.

For us, long-term success means we've invested the majority of our corpus into *highly effective organizations* that are making *transformative impact*. These organizations would be operating in the upper right quadrant of the TIGR.

The Transformative Impact Grid

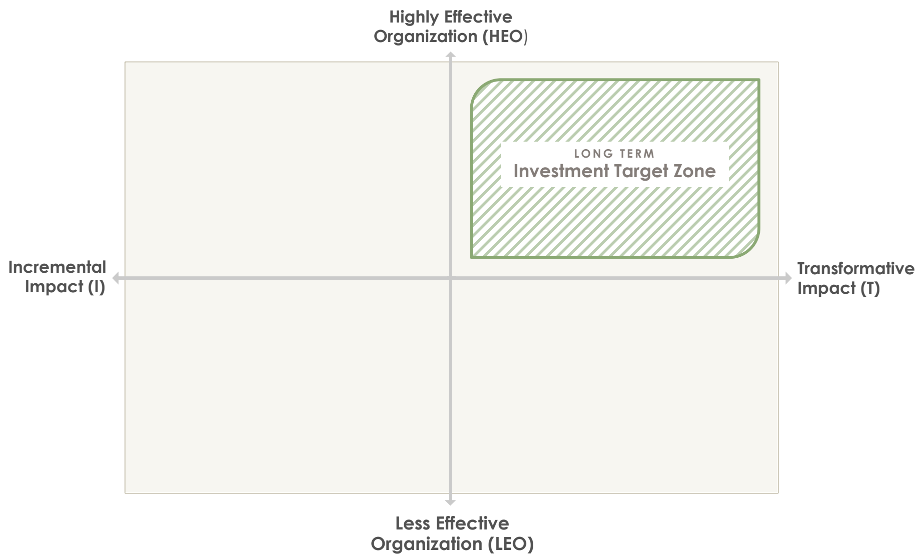

Figure 1. TheTIGR evaluates potential investment opportunities based on an organization's effectiveness (Y-axis) and its potential impact (X-axis). The investment target zone is located in the upper right-hand quadrant, signaling that the potential investee is a highly effective organization (upper Y-axis) that has the potential to make transformative change (right X-axis).

The Y-Axis – Highly Effective vs. Less Effective Organizations

The level of organizational effectiveness among entities serving children in Colorado varies widely. Investing in higher quality organizations results in both greater efficiency and effectiveness of the dollars we invest over time. GCI has identified three primary criteria that we believe distinguish organizational effectiveness. These criteria are *strength of management*, *evidence-based impact* and *financial stability*.

Management includes the executive director, key leadership team and board. Evidence-based impact means the existence of robust data-proven outcomes. Financial stability implies a level of financial operating results and controls that promote stability in the organization. A more complete description of these criteria is included at the end of the article.

Although a low Y-axis score can indicate an underperforming organization unworthy of investment, it may be an indicator of a young or start-up organization with a promising future that could benefit from thoughtful capacity building investments.

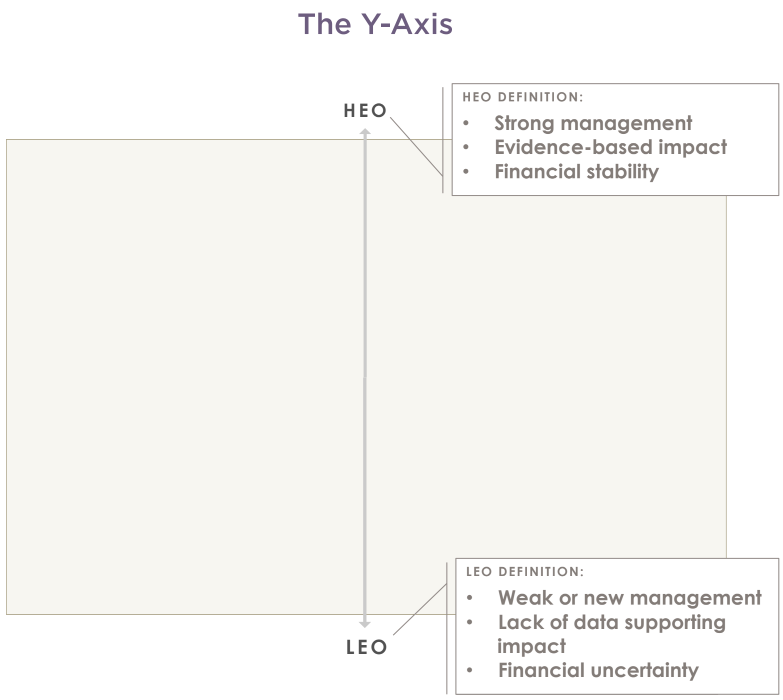

Figure 2. The grid's Y-axis shows an organization's level of organizational effectiveness.

The X-Axis – Incremental vs. Transformative Change

GCI will be unable to fulfill our mission in Colorado without investing in organizations that create transformative impact. There are numerous organizations, many of them HEOs, that are producing strong but incremental outcomes for low-income children. Our challenge is to find, fund or create organizations that will have transformational-level impact.

The key criteria for measuring transformative impact are *scale of operations* (how many children and/or families being served), *financial sustainability* (implying a cost model with an ROI sufficient to draw permanent or sustained capital infusion) and *sector-* as well as *organizational-level impact*. A more in-depth discussion of these criteria is included at the end of the article.

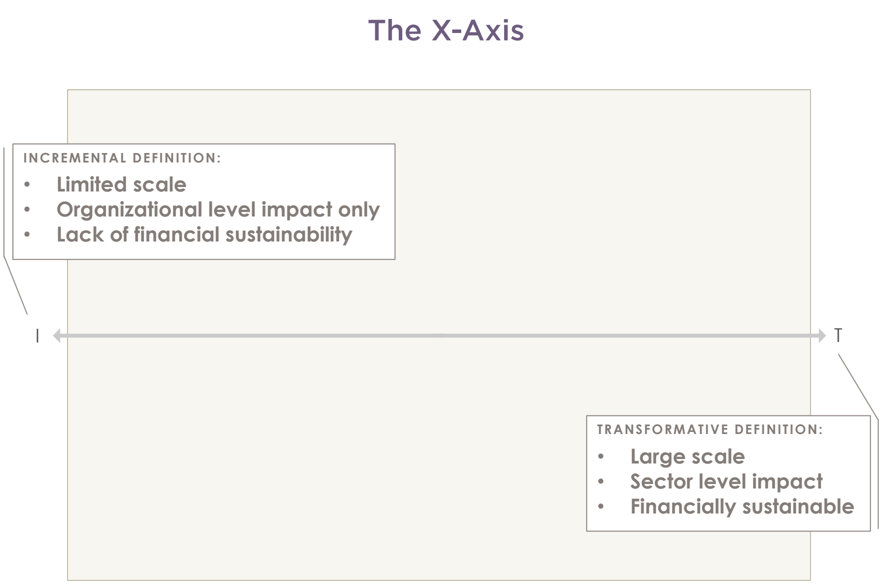

Figure 3. The X-axis defines a potential investment's impact, ranging from incremental on the left-hand side to transformative on the right.

Driving Investment Strategy & Success

The TIGR is proving to be a valuable tool in guiding many aspects of our investment decision-making process. These aspects include:

1. **Sharpening our due diligence process to provide all the information necessary to score the criteria:** By defining the key elements of a highly effective organization and transformative impact, we are able to better assess and understand how prospective investees meet these criteria.

2. **Increasing discipline around investment decisions:** By scoring and visually depicting investment opportunities, we are able to have more robust discussions around the merits of these opportunities relative to past or pending investments.

Investment Scoring

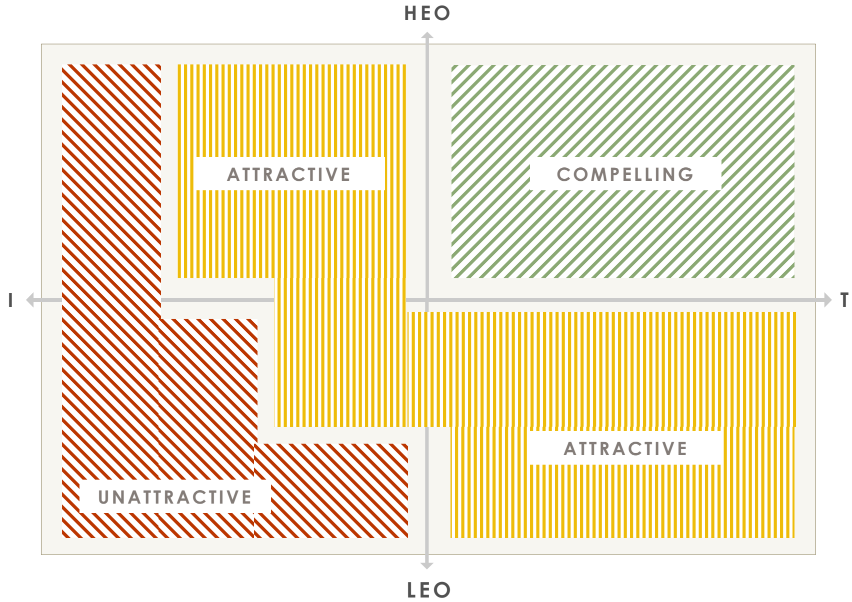

Figure 4. This illustrates how investment decisions would be categorized on the TIGR grid based on their potential effectiveness and impact.

3. **Defining clear goals and expected outcomes from an investment:** By segmenting organizational effectiveness elements from transformative impact elements, we are better able to communicate investment objectives.

   With GCI's goal of eventually transferring its corpus to highly effective organizations performing transformative work, investments that do not move those organizations either up or to the right become less attractive.

Investment Goals

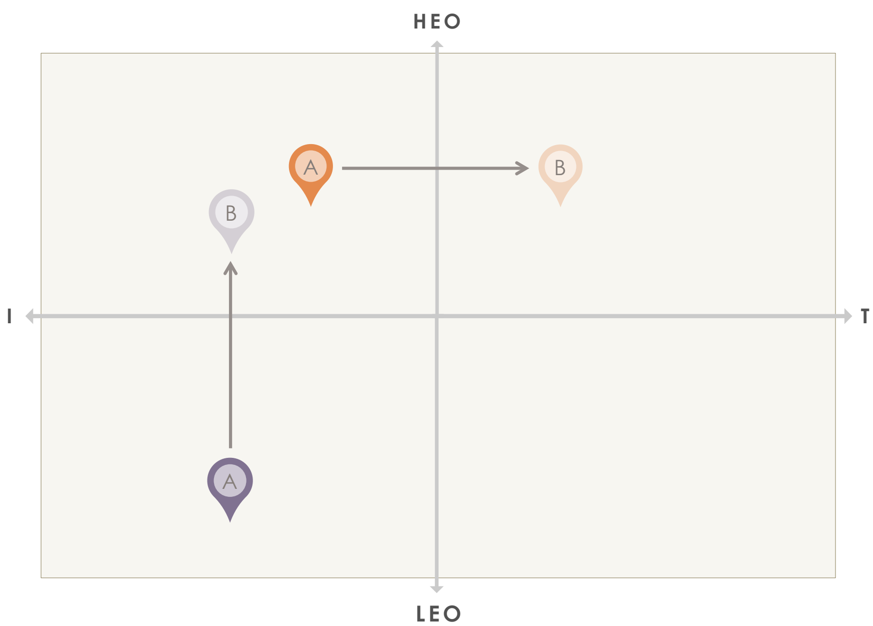

Figure 5. The goals of our investments are to move LEOs to HEOs (left quadrant A-B), and to move organizations from incremental to transformative change (upper quadrants A-B).

4. Measuring the success of investments over time:

Measuring non-financial impact has always been challenging. Although the TIGR is not a silver bullet, it does provide a framework for measuring investment success.

If clear goals are established, as in number 3 above, it becomes easier to report on achievement of these goals by recalculating the grid scores after an investment is made.

Actual vs. Expected Impact

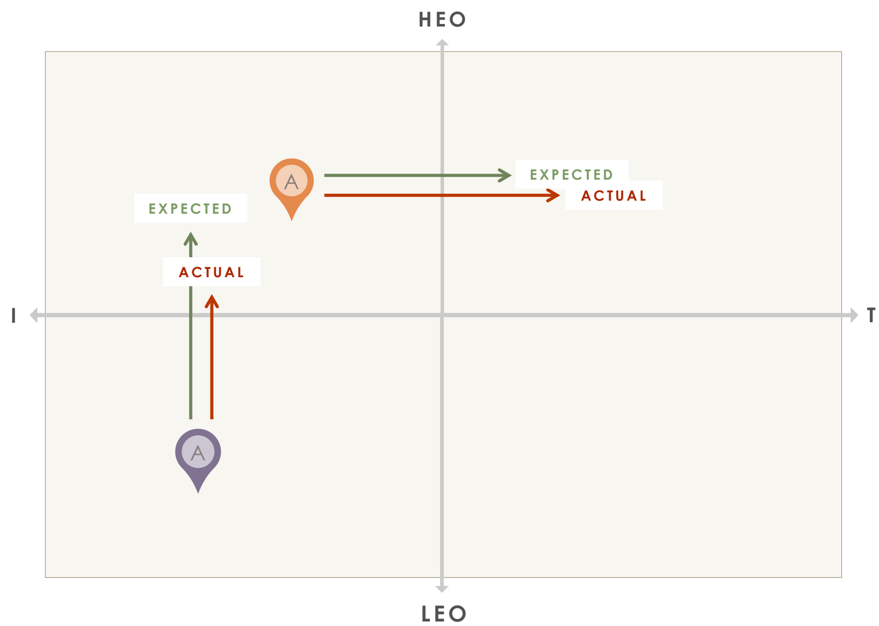

Figure 6. This graph shows what actual versus expected change occured when moving an organization from LEO to HEO (left quadrants) and what actual versus expected change occured when moving an organization from incremental to transformative impact (upper quadrants).

5. Setting a coherent strategy for capacity building investments:

With so many organizations seeking capacity building investments across various aspects of their operations, GCI needs a defined strategy to guide smart decision-making related to these investments.

The TIGR helps us be more strategic about capacity building investments by more narrowly focusing on the types of capacity building that will result in improving organizational effectiveness and limiting capacity building investments in organizations delivering highly incremental results.

Capacity Building

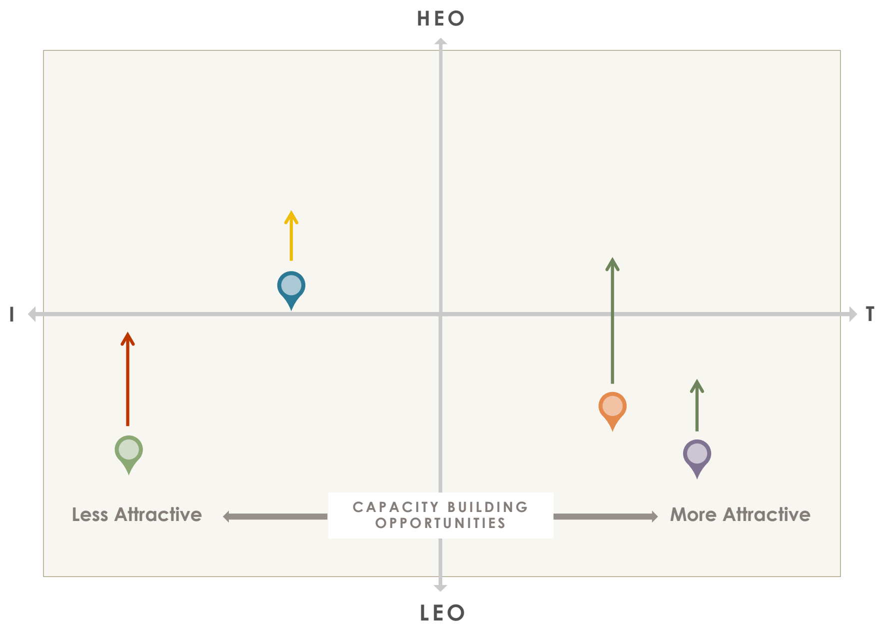

Figure 7. The right quadrant illustrates organizations that could become more transformative with capacity building support. Those that would remain incremental with capacity support are shown on the left quadrant.

Driving Investment Strategy & Success (*Continued*)

6. **Driving strategic direction:** Perhaps the most valuable aspect of the TIGR has been the focus it provides to our long-term goals. At the end of 2016, GCI's investment directors estimated the grid placement for key partners in each of our four outcome areas.

In our primary focus area of early childhood education, it became apparent that we were unlikely to reach our long-term goals without shifting how we work. Although we identified a number of organizations with the potential to reach the upper right quadrant, we determined that these organizations alone would not allow us to fulfill our mission.

The TIGR helped us realize that we need to help create or import new organizations to provide the level of impact needed over time. This has led us to launch a new set of innovation strategies within GCI to uncover new ideas and foster new organizations that could deliver transformational-level impact. As a result, we have dedicated both human and financial resources with the goal of attracting and funding new transformative entities to Colorado.

Refined Investment Strategy

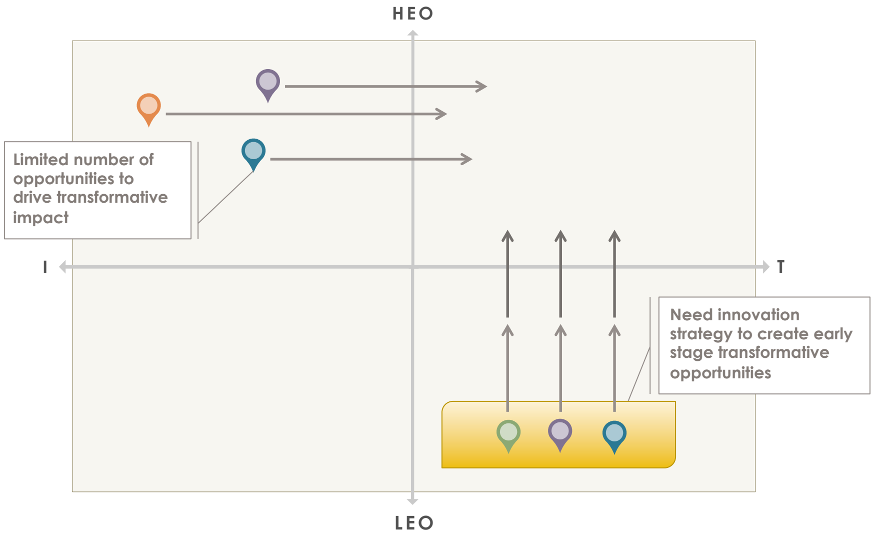

Figure 8. The graph shows the limited number of opportunities to drive transformative impact on the upper left-hand quadrant, and the opportunity to drive LEOs to HEOs making transformative impact on the lower right-hand quadrant.

An Imperfect Tool

The TIGR is useful as a tool to inform investment decisions and outcomes, however it is not meant to replace broad analysis and comprehensive due diligence. The relative simplicity of the grid makes it useful but also limits its scope. GCI has intentionally avoided adding a host of additional measurements that would sharpen the accuracy of the grid, but at a cost of complexity that might discourage its utilization. We will add or change criteria over time, as it proves informative to our work.

In addition to its over-simplification of both organizational effectiveness and transformative impact, the TIGR suffers from several other notable weaknesses, including a lack of scoring for depth of impact, which tends to undervalue the impact of organizations with multi-level programming, and the absence of a risk scoring mechanism.

Also, to achieve our long-term outcomes, GCI makes strategic policy investments that have the potential to create systemic changes in the public funding streams to early childhood education, health care and other issues that impact low-income families. Because these types of investments don't fit within the TIGR's framework, we intend to create a complementary grid to help ensure that our policy and systems-level work is creating the change we seek.

More on Determining Organizational Effectiveness

The following provides more insights into the criteria we use to determine organizational effectiveness.

Management

The importance and impact of high-quality management can be undervalued, especially in socially-driven nonprofits where the attention is focused on the mission and not execution. Some of the most successful private equity investors have a philosophy of investing in management teams, not companies. Similarly, top quality management teams can drive superior levels of social impact and scale with equal or fewer dollars than their less effective counterparts. The quality of the executive director is of paramount importance, however the highest rated leadership also includes a strong board of directors and depth among the management team.

In late 2011, Amy Friedman took over the reins at Book Trust, an organization that works to increase low-income children's reading skills. Under her dynamic leadership, the organization sharpened its focus on evidence-based impact, diversified funding sources and improved fidelity to its model. As a result of her leadership, Book Trust has evolved from an organization that was serving less than 20,000 children in 8 states with a budget of $1 million to one that is impacting 50,000 children in 19 states with a budget of $5.1 million.

Evidence-Based Impact

As an impact investor, GCI believes it is essential for organizations to provide data demonstrating the outcomes being achieved. HEOs have data systems to track these outcomes and use this data to continuously improve the efficacy and efficiency at which they drive these outcomes.

The nonprofit Communities in Schools, which works in schools across the country to empower students to succeed, tracks detailed longitudinal data on the outcomes for all of the schools it serves. Over the years, it has undergone seven independent reviews of its outcomes, using the results to continue to improve the program. The resulting evidence base and improved efficacy of the program has enabled CIS to attract large new donors, qualify for Title I government funding and scale the program into 25 states and the District of Columbia.

Financial Stability

Nonprofit organizations are, by nature, typically less financially secure than for-profit entities. With a smaller cushion for error, wise financial stewardship is critical to ensuring that financial struggles don't disrupt programming or threaten the organization's existence over the course of a multi-year investment.

Indications of financial stability include: consistently operating at a break-even or higher level, diversified revenue sources, cash balances covering three to six months of operating overhead, ability to produce accurate budgets and forward looking forecasts, adequate internal financial controls, and annual financial results prepared by an independent third party.

Other Factors

As we develop a more precise scoring matrix for the Y-axis, the above three factors will be the most important, with the first two somewhat more heavily weighted. There are additional factors to consider, including staffing and resources in place to execute and sufficient infrastructure, which may impact the final score.

More on Determining Transformative Impact

The following provides more insights into the criteria we use to determine an organization's ability to create transformative impact.

Scale

Scale is a relative term with transformative organizations operating on a scale large enough to have meaningful impact on the populations being served. Related to our mission of serving low-income children, it is estimated that 182,000 children in Colorado live in poverty. Program solutions that impact dozens or hundreds of children would score on the incremental side of the axis, while organizations serving thousands of children would score on the transformative side. Programs with replicable operations and cost models delivering effective return on investments are great candidates for scaling and may receive transformative level scores based on the potential to impact thousands.

Denver School of Science and Technology (DSST) opened its first charter school in Denver in 2004. Largely due to the fact that 100 percent of its graduates have been accepted to four-year colleges and it has been successful in virtually eliminating the achievement gap, DSST has scaled to 12 schools, and it plans to open an 10 additional schools by the time its network is fully built out in 2025. Driving positive educational outcomes for nearly 5,000 kids a year while impacting the entire charter school movement in Colorado, DSST has achieved transformational status on multiple fronts.

Financial Sustainability

As opposed to financial stability, financial sustainability is a measure of an organization's ability to provide effective programming for a prolonged period of years. For-profit revenue sources or secure government-level payers help create sustainable financing. Pay for Success represents another potential source of sustainable funding. By definition, an organization that is able to securely sustain financing for its programs over the long term will impact more children and transform more lives.

Worklife Partnership is an agency that places navigators in companies employing relatively low-wage workers. These navigators assist employees in overcoming issues around child care, healthcare, finances, transportation, housing and others that can result in lost time at work, lost focus at work, and, eventually, inability to maintain employment. Initially financed predominantly through philanthropic funding, Worklife Partnership has collected data demonstrating the value of its program in increasing employee attendance and retention. This has enabled Worklife Partnership to shift its revenue model to a fee-for-service model paid by the businesses served, increasing the sustainability of its programming while also making it easier to scale.

Sector-Level Impact

Transformative organizations often have additional layers of impact that lift the entire sector of programming, whereas incremental organizations tend to confine their impact to those being directly served. Teach for America (TFA) entered Colorado in 2007, and today, its early-career teachers (corps members) and alumni teachers reach more than 30,000 students a day in classrooms across Colorado. While this is significant, the direct impact teachers make in classrooms serves as a fitting springboard for broader impact across the Colorado education landscape. Because more than 80 percent of TFA-recruited teachers stay in education and/or service to low-income communities, TFA alumni in Colorado now play key roles as principals, charter school founders, school innovation leaders, legislators, and policy advocates. One in five school leaders in Denver Public schools is a TFA alum. It is this secondary impact that has made TFA a truly transformational organization.

As GCI looks to invest all of our assets into the community by 2035, we will utilize the TIGR as a tool to help us identify, evaluate and monitor our investments to help ensure we are creating the change that is necessary to achieve—and sustain—our vision that all children in Colorado have the opportunity to grow up healthy and become productive members of their communities. We recognize that our vision is an ambitious one, but we believe that seeking transformative solutions for low-income children and families is the way forward for Colorado.