# The Transformative Impact Grid

*A Tool for Evaluating Potential Investments & Measuring Outcomes*

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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 seek.

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 take 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 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 for-profit community investments we make have the power to create meaningful change for low-income children and families.

## Introducing the Transformative Impact Grid

To accomplish our sunsetting goal, GCI's staff is challenged with identifying and creating a portfolio of high-impact organizations, including nonprofits, 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-hand quadrant of the TIGR.

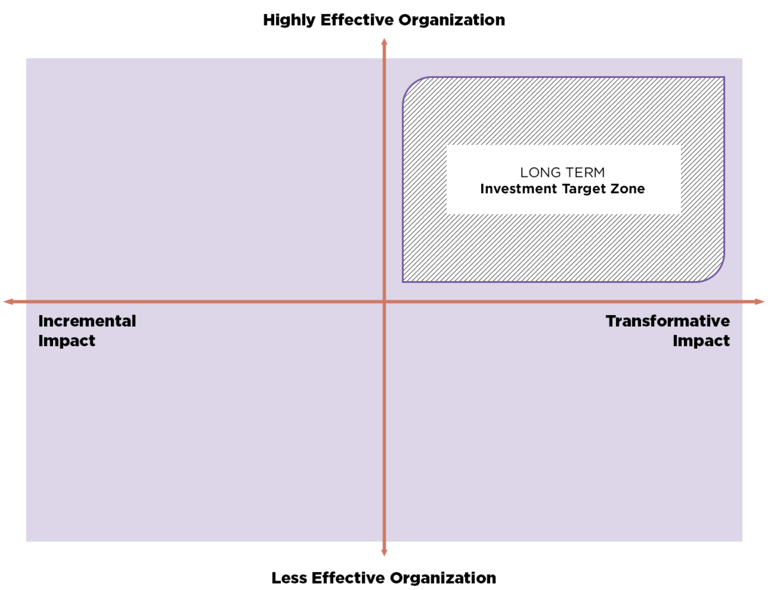


**Figure 1**. The TIGR evaluates potential investment opportunities based on an organization's effectiveness (Y-axis) and its potential impact (X-axis). The investment target zone is located in the upper right-hand quadrant, signaling that the potential investee is a highly effective organization (upper Y-axis) with 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 Colorado children 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: leadership and management, existence of evidence-based outcomes, and financial stability. In addition, we believe understanding how an organization manages its system and resources, as well as its mission clarity, are key components to assessing organizational effectiveness.

Leadership and 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 diverse and consistent source of revenue and management of cost structure in a way that promotes stability in the organization. Systems and resources to carry out mission is an efficient and effective use of an organization's infrastructure, systems and staffing. Mission clarity means the organization is able to clearly articulate its strategy and has the diligence to stay on track to achieve it. A more complete description of these criteria is included at the end of the brief.

For a potential investment, we assign a score for each criteria in order to produce an overall Organizational Effectiveness score to plot on the grid.

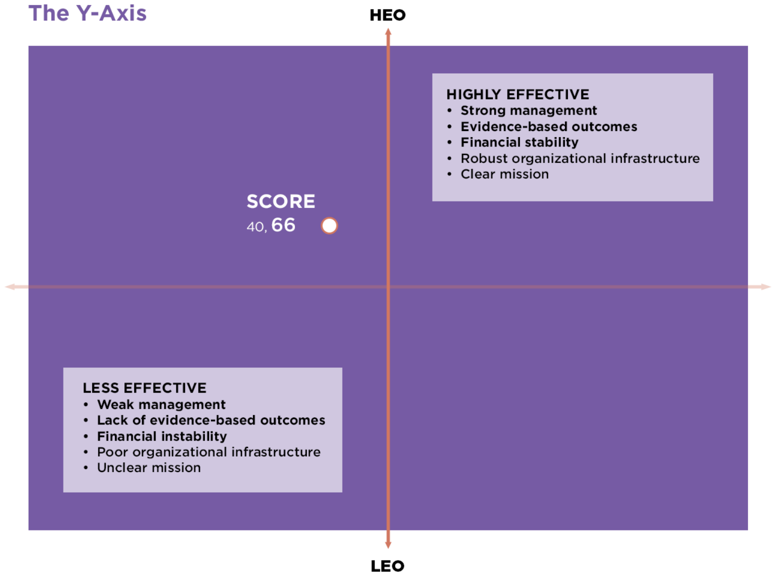


**Figure 2**. The grid's Y-axis shows an organization's level of effectiveness.

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

## 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 highly effective organizations, that produce strong but incremental outcomes for low-income children. Our challenge is to find, fund or create organizations that will create life-changing impact for children and families.

The three primary criteria for measuring transformative impact are the breadth of impact created (how many children and/or families are served), system- or sector-level change, and financial sustainability (implying a cost model with an ROI sufficient to draw permanent or sustained capital infusion). In addition to these criteria, we consider the depth of impact created (how life changing the impact is for children and families), and the scalability and cost effectiveness of the impact (a model that generates impact and is easily replicable). A more in-depth discussion of these criteria is included at the end of the brief.

For a potential investment, we assign a score for each criteria in order to produce an overall Transformative Impact score to plot on the grid.

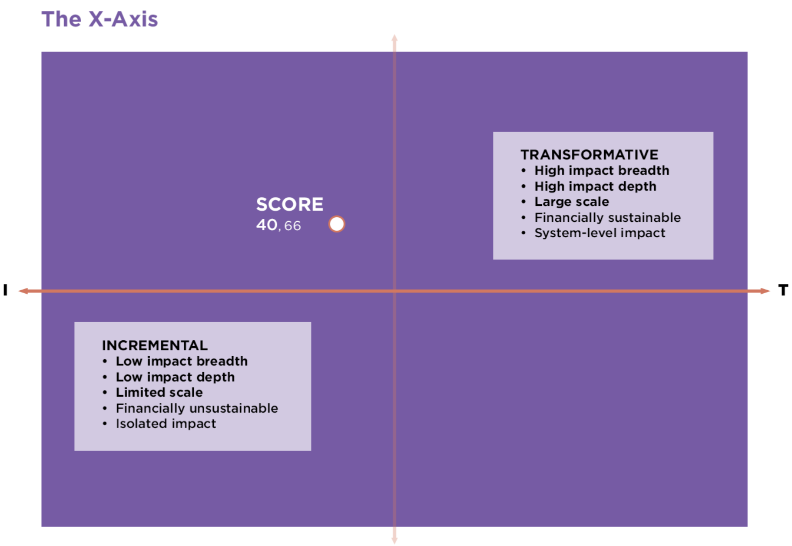


**Figure 3**. The X-axis defines a potential investment's impact, ranging from incremental on the left-hand side to transformative on the right.

## 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.

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 Scoring

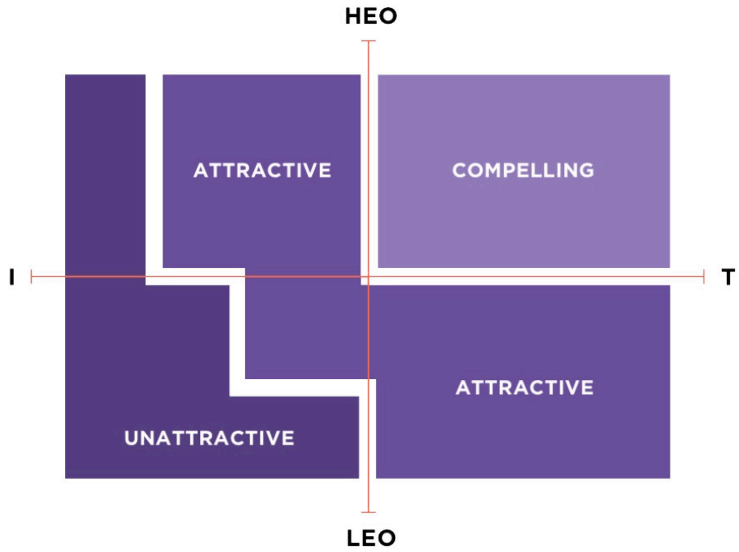


**Figure 4**. This illustrates how investment decisions would be categorized on the TIGR grid based on their potential effectiveness and impact.

### Investment Goals

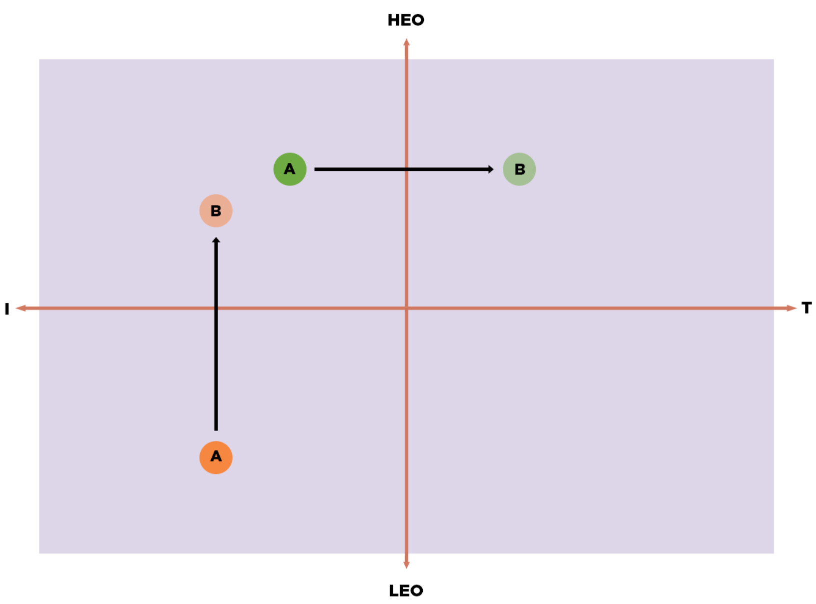


**Figure 5**. Our goal is to move investee organizations from less effective to highly effective (left quadrant A-B), and from incremental to transformative change (upper quadrants A-B).

### 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 No. 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

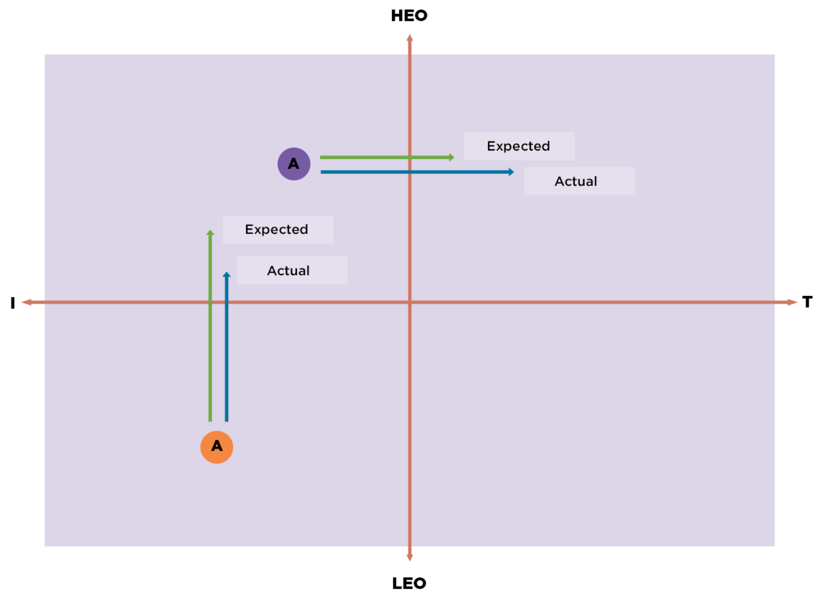


**Figure 6**. This graph shows what actual versus expected change occurred when moving an organization from less effective organizations to highly effective organizations (left quadrants) and what actual versus expected change occurred when moving an organization from incremental to transformative impact (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 improve organizational effectiveness and limit capacity-building investments in organizations delivering highly incremental results.

## Capacity Building

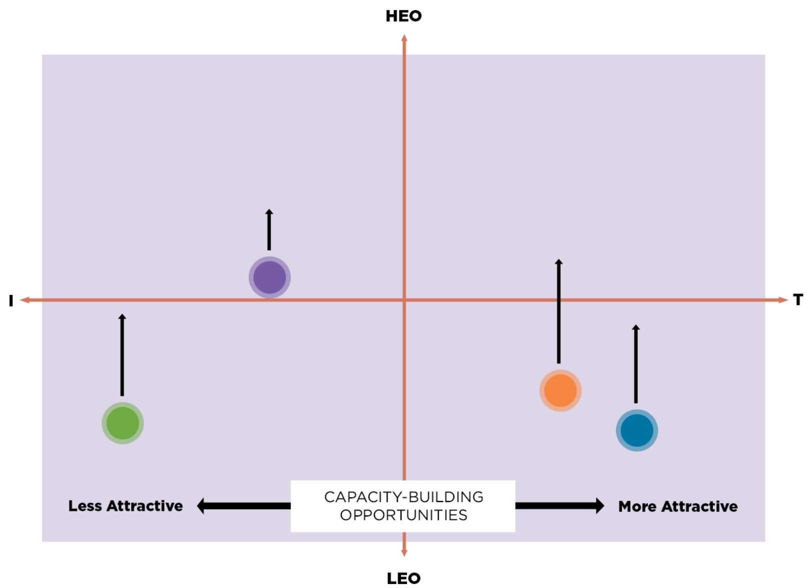


**Figure 7**. The right quadrant illustrates organizations that could become more transformative with capacity-building support. Those that would remain incremental with capacity support are shown on the left quadrant.

## Driving Investment Strategy & Success

**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 School Readiness outcome area, 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-hand quadrant, we determined that these organizations alone would not allow us to fulfill our mission.

The TIGR helped us realize that we need to create or import new organizations to provide the desired level of impact over time. This led us to launch a set of innovation strategies within GCI to uncover new ideas and foster new organizations that could deliver transformative 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

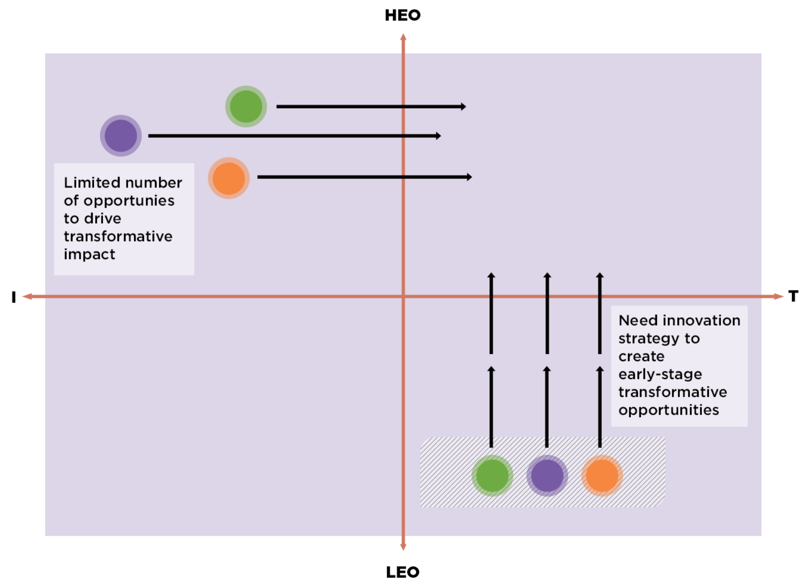


**Figure 8**. The graph shows the limited number of opportunities to drive transformative impact on the upper left-hand quadrant, and the opportunity to drive less effective organizations to highly effective organizations, making transformative impact on the lower right-hand quadrant.

## 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 weighting of dimensions and scoring mechanism are inherently subjective. While we are able to put parameters on the breadth of impact (i.e. number of people benefiting), it is difficult to create a standard for the degree to which an organization's impact is deep or creating system-level change. To adjust for this, we have chosen to weight impact breadth and systems-level change equally high.

# [ More on Determining Organizational Effectiveness ]

The following provides more insight into the criteria we use to determine organizational effectiveness. For each criteria, we score an investment on a 0-7 scale. Each criteria is weighted according to what GCI believes are the most critical factors for achieving organizational effectiveness. The weight and criteria score produces an overall Organizational Effectiveness score.

## 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, though 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 serving fewer than 20,000 children in eight 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.

## EXISTENCE OF EVIDENCE-BASED OUTCOMES

As an impact investor, GCI believes it is essential for organizations to provide data demonstrating the outcomes being achieved. Highly effective organizations 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 (CIS), 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 typically are, by nature, 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.

## SYSTEMS & RESOURCES TO CARRY OUT MISSION

Highly effective organizations are able to leverage their funding stability to establish infrastructure and systems that effectively and efficiently create results. They do not waste resources and have the right staffing to deliver on their mission.

## MISSION CLARITY

It is easy for investment dollars to detract from an organization's core mission. Yet, that often leaves an organization making poor use of their resources and scrambling to fulfill their obligations. Highly effective organizations are able to clearly articulate their mission and say no to opportunities that fall outside their scope. They have a commitment to continuously improving their products or services to achieve that mission and are not stuck repeating old habits.

## [ More on Determining Transformative Impact ]

The following provides more insight into the criteria we use to determine an organization's ability to create transformative impact. For each criteria, we score an investment on a 0-7 scale. Each criteria is weighted according to what GCI believes are the most critical factors for creating transformative impact. The weight and criteria score produces an overall Transformative Impact score.

### IMPACT BREADTH

Impact breadth refers to the number of people benefiting from the solution. 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.

### IMPACT DEPTH

The number of people benefiting from a solution does not tell us if the solution is life changing. To understand the depth of impact, we look at who is experiencing the impact and how underserved the population is in relation to that impact. We assess how holistic the program solution is and the degree to which it would significantly affect the course of a child or family's life. WORKNOW is a workforce platform that provides low-income families job training, job placement, community resource navigation and job coaching, allowing families to become more economically self-sufficient. The platform's impact is deeply transformational because it boosts families' income and helps them build assets, which leads to improved short- and long-term education, health and economic outcomes for children in those families.

### 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 at scale. For-profit revenue sources or secure government-level payers help create sustainable financing. Pay for Success represents another potential source for 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. The nuance is that GCI believes a critical component of transformative impact is an organization's ability to achieve financial sustainability at scale. A organization may be able to create a recurring revenue stream, but if that revenue stream is not able to grow due to market or business model limitations, the organization's transformative impact is limited by its small-scale operation.

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.

### SYSTEM- OR SECTOR-LEVEL CHANGE

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 every 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 reach their full potential. 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.

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