The Center on Philanthropy & Public Policy

FOUNDATION STRATEGY FOR SOCIAL IMPACT; A SYSTEM CHANGE PERSPECTIVE

James M. Ferris
Nicholas Williams

UNIVERSITY OF SOUTHERN CALIFORNIA

FOUNDATION STRATEGY FOR SOCIAL IMPACT:
A SYSTEM CHANGE PERSPECTIVE

James M. Ferris
Nicholas Williams

Research Paper - 30
May 2009

James M. Ferris: Professor and Director, The Center on Philanthropy and Public Policy;
School of Policy, Planning, and Development, University of Southern California, Lewis
Hall 210; Los Angeles, CA 90089-0626

ABOUT THE CENTER ON PHILANTHROPY AND PUBLIC POLICY

The Center on Philanthropy and Public Policy promotes more effective philanthropy and strengthens the nonprofit sector through research that informs philanthropic decision making and public policy to advance public problem solving. Using California and the West as a laboratory, the Center conducts research on philanthropy, volunteerism, and the role of the nonprofit sector in America's communities.

In order to make the research a catalyst for understanding and action, the Center encourages communication among the philanthropic, nonprofit, and policy communities. This is accomplished through a series of convenings and conversations around research findings and policy issues to help key decision makers work together more effectively to solve public problems and to identify strategies for action.

The opinions presented in this paper represent those of the authors and not those of The Center on Philanthropy and Public Policy.

About the Author

James M. Ferris holds the Emery Evans Olson Chair in Nonprofit Entrepreneurship and Public Policy in the School of Policy, Planning and Development at the University of Southern California. He directs the USC Center on Philanthropy and Public Policy. Professor Ferris specializes in the economics of the public and nonprofit sectors, public finance, and public policy. His research examines the shifting roles of the public, nonprofit and for-profit sectors in governance and the economy. He has done extensive work on public service delivery, focusing on the contracting decisions of local governments and strategies to improve public sector performance through competition, decentralization, and privatization. He is currently investigating the causes and consequences of the conversion of healthcare organizations from nonprofit to for-profit status and the implications for the nonprofit role in healthcare; the changing landscape of philanthropy; and intersectoral alliances for urban problem solving.

FOUNDATION STRATEGY FOR SOCIAL IMPACT:
A SYSTEM CHANGE PERSPECTIVE

Abstract

As foundations work to leverage their philanthropic assets to achieve greater social impact, there is a keen interest in designing strategies that create transformative rather than incremental change. This paper is an effort to provide a conceptual overview that will enable foundations to better understand what "system change" means in the context of foundation strategy. It provides a succinct, non-technical definition of a system in an attempt to move from system as a metaphor to a more concrete framework that can guide foundation work. Particular attention is paid to the need to discern which strategic options are more likely to catalyze transformative change, the links between policy change and system change, and consideration of a wider choice set for creating system change.

FOUNDATION STRATEGY FOR SOCIAL IMPACT:
A SYSTEM CHANGE PERSPECTIVE

There is a growing interest among foundations to leverage their philanthropic assets – money, knowledge and networks – to create change in society. In recent years this has led to a focus on public policy engagement, and an increasing sophistication about how foundation strategy and tactics can influence public policy choices. We now have greater clarity about the links between public policy, lobbying and advocacy, and an enhanced understanding about the wide latitude that foundations have under law for engaging in public policy work. As a result, foundations have increasingly recognized the opportunities they have to engage in public policy work, and what it is likely to take to foster policy change (Ferris, 2009).

At the same time, foundations have increasingly focused on leveraging their resources to create system change. The interest here is to achieve broader-based, longer-lasting changes in social outcomes. Yet, there has not been the same degree of focus on understanding the work of foundations interested in system change efforts. And, the work that has been done has been linked to policy change. In fact, the terms "policy change" and "system change" are often used interchangeably. While policy change may be one tactic in a larger system change strategy, policy change is not the only option for catalyzing system change. Moreover, policy change efforts are not always viewed within an explicit system change framework. As a consequence, there seems to be a great deal of confusion generated about what "system change" means and how it might be achieved.[1]

Thus, our objective in this paper is to explore what a system change perspective implies for foundation strategy. In so doing, we hope to better understand the strategic choices foundations face as they seek to generate the greatest social impact given available resources. As a beginning point, we sketch out a system change framework. In the process we are interested in understanding how the system change framework relates to the policy change framework and the lessons for foundation practices. As a result, we hope to gain a deeper appreciation of the system change approach, while avoiding muddled conversations about foundation strategies to maximize social impact.

The plan of the paper is as follows. First, we present the essential elements of a system, with a particular emphasis on the points within the system that are potential leverage points for creating system change. Second, we examine the manner in which system change may be realized, with policy change as one of several options. Then, we conclude with the lessons for foundation decision-making and practice.

---

[1] Ironically, this comes just as progress has been made in clarifying how foundations might engage the policy process to create greater impact.

THE SYSTEM CHANGE FRAMEWORK

To understand how foundations can best leverage their assets – money, knowledge, and networks – to foment changes within a system, we must first understand what we mean by a "system" – how it comes to be defined and how it changes. This will provide a backdrop for an examination of the strategic choices that confront foundations seeking to achieve system change through their work.

What is a system?[2]

At its most basic, a system is a set of component parts that – through their interactions with one other – function as a whole. A system may be physical in nature such as a solar system or an ecological system, or it may be a man-made social system such as a health care delivery system, a judicial system or an educational system.[3] Models of a system are developed to represent reality based on a set of assumptions. These models are sometimes a simple mental model or can be a formal mathematical model. But they are often something in between. Typically, as foundations work with system models they are most likely to develop visual schematics that depict the relevant components and interactions that help them to understand the system directly relevant to the public problem or social condition that they hope to address in pursuit of their missions. The interest here is to develop a conceptual model of a system that produces an outcome – such as a health care system or an educational system – that can be used to frame foundation strategy.

A system model is particularly useful in understanding the causal relationships between various components of a system, particularly when the relationships are dynamic, multi-directional, and occur at different time intervals. As such, a system model tends to be more complex than many of the traditional models used to explain behaviors and predict outcomes related to critical public problems.[4] The challenge in any modeling exercise is to balance complexity with simplicity; that is, to make sure that a model incorporates the essential variables and relationships that enable it to have predictive power, but to do so without needlessly increasing complexity without a substantial payoff in terms of more accurate predictions.

In order to define a system, it is first necessary to identify the essential components inherent in any system: the actors, the rules of the game, and the environmental (ecological) context. After enumerating a system's component parts, the linkages among

---

[2] The discussion draws from the work of Foster-Fishman, Nowell and Yang (2007). For a discussion of system models for understanding social innovation and entrepreneurship see Bloom and Dees (2007); and for a discussion of system models and their evaluation see Patton (2008).

[3] For an overview of the evolution of systems thinking concepts, including the various "waves" of system thinking as applied to the social sciences, see Midgley (2007).

[4] In policy work, the models are typically linear in nature and unidirectional as the focus is on predicting the impact of a change in a policy or a programmatic activity.

them must be specified. This includes identifying the direction of cause and effect relationships, allowing for the possibility of feedback loops as well as noting the timing of those impacts (for example, delayed interaction effects) as well as the magnitude of those impacts. The final step in the construction of the system model is to bound the system, in effect, to make choices about what to include in the system and what not to include. Assumptions must be made about what factors are endogenous to the system, and what are exogenous.

System Components

The first building block of any system model is the identification of its **key actors**. In social systems the behaviors of the key actors drive the performance of the system. The key actors in such systems are typically individuals and organizations that exhibit some influence over a system's input or resources or outputs. Cumulatively, it is the behaviors of these actors that ultimately determine the performance of the system. And, it is through changes in these behaviors that we expect to observe changes in the system.

For example, the Annie E. Casey Foundation created the Casey Strategic Consulting Group to improve the lives of vulnerable children by working with the various departments of human services that vulnerable children and their families are most likely to encounter.[5] Free consulting services, which bring private sector management techniques to child welfare, juvenile justice, and other human services are used to enhance system infrastructure and obtain support from key stakeholders such as public officials and child advocates that also influence the system. Their system model predicts that by changing the behavior of the agencies working on "the frontlines" of human service delivery the foundation can improve overall system performance. Moreover, the model suggests that this system's performance is intricately tied to improving the expected outcomes for needy children and their families.

Pivotal to modeling the behavior of the key actors is acknowledging the **"rules of the game"** under which the actors play.[6] That is to say, there is an institutional logic within which system actors operate that influence their behavior and practice. First and foremost, the rules of the game include formal rules such as the incentives and constraints embodied in law and public policy. These formal rules are the explicit rules that govern the system. However, the rules of the game also include informal rules such as values, norms, and conventions that shape the behavior of key actors.[7] Understanding the array

---

[5] For additional details, see: http://www.aecf.org/MajorInitiatives/CaseyStrategicConsulting.aspx.

[6] This conceptualization of the rules of the game is drawn from the work of Douglas North on institutions and institutional change; see North (1990). Scott, et al. (2000), also discusses how shifts in dominant institutional logics within healthcare affect the actors, behaviors and governance structures within the healthcare system.

[7] We believe that it is important to focus on informal rules and their behavioral consequences which might be variables that can be changed to produce system change. This is an area of emphasis that often is in contrast to policy change models where such factors are considered exogenous rather than endogenous.

of formal and informal rules in a system is critical to defining it and to understanding its performance.

In modeling the behaviors of actors in the system, however, there is a tendency to focus on the formal rules and to neglect the informal rules. After all, there is a predisposition to focus on those rules that are well articulated (through statutory language, etc); are thought to be the primary parameters that shape behavior (formal sanctions or incentives); and that can be altered through the policy process, as in the case of taxes, subsidies or regulatory constraints.[8] Informal rules, on the other hand, are often perceived to be more ambiguous, more diffused, and to require more sustained efforts over time, giving rise to a sense of greater uncertainty. As a consequence, they are often ignored as possible levers for creating change.

For example, there is an array of options for reforming the mental health system. There is a tendency to focus on the financing and organizational structure of the health care system in order to create better system outcomes. On the other hand, it is quite possible that the system's performance can be improved by changing the protocols for treating clients when there are a variety of possible treatment options. If evidence emerges that indicate that particular protocols are more effective, it is possible that encouragement of changes in professional standards and their diffusion among mental health practitioners – key actors in the system – will yield improved outcomes.

The reality is that in most instances the success of a sustained change in the behavior of key actors and, thus, a system change occurs when the formal and informal rules are aligned reinforcing the desired change. To return to the mental health example, this would include the recent efforts of the federal government to encourage a number of states to introduce innovative changes to their state mental health systems including new evidence-based practices.

A third component in the development of a system model is delineating the **environmental factors** that shape the behavior of the key actors that reside within it. So far we have considered the micro-analytics of the system, in effect, how the behaviors of key actors are shaped by the rules of the game. However, in order to understand the impact on the system, it is necessary to account for how these micro-level relationships are influenced by more macro-level phenomena as well as how the micro-level impacts are aggregated within a system. While the range of contextual factors will vary considerably depending on the particular system of interest, likely prospects are industry structure, demographics, government programs, and community and economic development.

For example, the unemployment level in a community is likely to shape the choices of individuals about enrolling in job training programs as well as the supply of such programs. Another case where the ecological effects may significantly impact a system is

---

[8] Indeed, policy analysts are trained to apply their "tool kit" of policy instruments to develop policy options for addressing any number of public problems; see Weimer and Vining (2005).

the recent spike in gasoline prices. The precipitous rise has already led consumers to consider purchasing more fuel efficient, low carbon emitting vehicles. In the long run this could greatly benefit efforts to reduce air pollution. In addition, it is likely to induce a greater use of mass transit. And, of course, the cumulative impact of these macro factors on micro behaviors of actors and the rules of the game can feed back to affect the macro levels in a dynamic system on environmental quality.

System Interactions

The relationships among the component parts is an important dimension of the system change approach. The more formal system approach – system dynamics – highlights the importance of feedback loops within the system, the distinction between stocks and flows, time delays, and nonlinearities.[9] These interactions among the various actors, rules of the game, and macro conditions provide a structure for a system model that highlights the complexity of creating change in the system and provides an opportunity for identifying the key sources of system change with a more holistic appreciation for the full range of impacts, both intended and unintended.[10]

For example, in health services there is considerable interaction between the patient and the health care provider – key actors in the system – that are shaped by the rules of the game. An older individual with a chronic illness would naturally be expected to seek medical attention more regularly than a younger, healthier patient. But simply modeling individual behavior is insufficient to understand the health care system and whether or not an expected outcome will occur. The behavior of health care providers is also important especially if their practices work to discourage utilization, e. g, high co-payments, adherence to treatments, excessive waiting, and language and cultural barriers. Moreover, the overall functioning of the system will be affected by changing demographics as well as the changing health status of the population.

The challenge, of course, is to specify not only all of the relevant system components but the direction and the magnitude of the interrelationships among the components. The greater focus on the complexity and specificity of interactions that are integral to the system approach helps to delineate the full range of variables that can mediate the impact of an intervention to change the dynamics of a system and, ultimately, its outcomes.

System Boundaries

In addition to identifying the components – actors, rules of the game, and the environmental conditions – and specifying the relationships among them, it is important to determine the boundaries of the system. In effect, it is necessary to make choices as to what factors or components to include in the system and what to exclude from the

---

[9] For a discussion of these more technical elements of system dynamics, see Sterman (2002).

[10] While there are models used in policy analysis that allow for some simultaneity or lags, seldom do they deal with the multiplicity of interactions.

system. The assumption that is made about what is endogenous and what is exogenous is an important element in the design of a system model. The more variables that are included in a system, the more complicated the model becomes. This increases the information that is necessary to specify the model and may obscure the most important elements of the system – the pivotal actors, rules, and interactions. On the other hand, the more factors that are considered to be exogenous to the system, the greater the chance that factors that may actually have an important impact on a problem or issue are overlooked.   Thus, there is a considerable art to drawing the boundaries of any system.[11]

For example, it is common for a model of a programmatic area such as a health system or an education system to be developed with a focus on the outcomes of the particular system. However, it is possible that such a conceptualization of the system will be inadequate to deal with the range of factors that ultimately determine the desired outcomes. While the outcomes of a particular programmatic-based system may be important and adequate in particular instances, it is also possible that the desired outcomes may not be simply shaped by one programmatic area. For example, service integration might matter more than any single service when the well-being of children and families is at stake. For instance, the Corporation for Supportive Housing (CSH) has sought to integrate housing development, job training, social work, homeless services, mental health, substance abuse, and hospitals into a single system focused on helping to end chronic homelessness (Grief et al., 2003).

To further complicate matters, the boundaries of a system might be fluid. As a result of forces at play over time, it is quite possible that new institutions and actors will emerge, and new contextual factors will come to bear on the performance of the system. For example, for many years as efforts have been made to reform the public school system, the role of private schools might well have been excluded from the system. In effect, private schools, most of which were religious-based, were not viewed as competing with public schools and therefore had no bearing on the performance of public education system. However, as the notion of "school choice" has gained momentum as a reform option throughout the country, charter schools – which are private organizations that receive public dollars – are seen as increasingly important actors. The underlying theory is that public schools will have an incentive to respond by improving the quality of the educational experience of their students as competition for students (and the average daily attendance formula for public dollars) from charter schools increases.

As one thinks about bounding a system, it is important to underscore that the system can be large or small – a school district or a state educational system.   A system can be public or private. In some cases, a blended system such as health care with both public and private providers. And, a system can be industry-specific such as mental health

---

[11] Some of the systems literature focuses on the social construction of systems and the importance of involving stakeholders in defining and bounding the system. This is particularly underscored in the work on organizational fields found in sociology (e.g. Scott et al., 2000). This approach to systems is more likely to guide the work of those focused on the actual process of change such as community organizing or consensus building, e.g., Foster-Fishman et al., 2007, as opposed to the development of foundation strategy.

providers or cross-industry such as a system that works across health, housing, and other social services to serve vulnerable populations. Moreover, there can be systems within larger systems. It is important to emphasize that the design of a system model needs to be congruent with the relevant understanding of how a particular system works and how well it fits the uses to which it is applied.

System Change

Having defined what a system is and identified its key elements, we now turn our attention to system change. In effect, what are the advantages of a system model in understanding how efforts can be made to change a system so as to achieve greater social impact?

Systems are inherently dynamic, not static. With the range of interrelationships among key actors, formal and informal rules, and macro conditions, there is reason to assume that there are continual changes. As a matter of convenience, however, it is assumed that systems are in equilibrium when creating a system model. This stability is often translated as a static state. This enables one to consider what happens when a change is introduced into a system as it moves to a new equilibrium. Yet, the reality is that a system evolves as there are changes in the number and nature of actors; as the rules of the game change altering the behavior of key actors; and/or as macro-environmental conditions change such as economic growth or technological change. But beyond the internal dynamics, understanding the consequences of efforts that are intended to change a system by design is of particular importance for our purposes. There are three critical dimensions of change that the system model helps to highlight: localized vs. system-wide change; incremental vs. discontinuous change; and the time horizon for change.

Let's first consider the issue of **localized vs. system-wide** change. There are a wide range of options that have been suggested and tried for reforming school systems. One of the more popular strategies has been to provide more flexibility among and within local school districts in terms of school-based management or school-level curriculum development. The premise of this approach is that such flexibility will allow those closest to the classroom to make decisions that reflect local knowledge, enabling the system to be responsive to local needs. An alternative approach has been to work to produce changes from above, such as at the district or state level, that mandate change throughout the entire system simultaneously.[12]

Both approaches might work over time to change the school system. However, the system model underscores that the more decentralized approach carries a greater risk of creating only localized changes in that not all of the schools will likely use the management or curriculum flexibility to produce better outcomes. Thus, there is a chance that improvements within the system will occur unevenly, without producing a system-

---

[12] While both strategies involve change within the public school system, the former allows for management choices at the school site akin to changing practices in private sector organizations, while the later is actually a change generated by public policy.

wide impact. Of course, if such change can be realized on a broad-scale basis, it is possible that obtaining buy-in from relevant stakeholders who may have helped to design and implement change may prove more sustainable than a "top down" approach. That might be one explanation behind the choice to use a bottom-up approach vs. a top-down approach.

Another important dimension of system change is whether the change is **incremental or fundamental** (discontinuous). Some efforts to change a system focus on strategies that produce gradual and continuous changes that ultimately are seen as yielding a system-wide impact. Other efforts at system change focus on creating discontinuous (non-incremental) change, i.e., disrupting existing relationships in the system with the intent of redesigning the system in a fundamental way. For example, in the early 1980s there was considerable effort in containing the cost of public health insurance programs – Medicaid and Medicare. One potential option was to reduce the cost reimbursement formulas in the public programs. Such a change in public policy would have resulted in reducing the costs associated with such programs. This would have an impact on the various decisions of actors within the system and would eventually have a system-wide impact. The other option, ultimately adopted, was to shift from a cost-reimbursement to a prospective payment approach. This policy change was a fundamental change, altering the rules of the game facing health care providers in a dramatic fashion, rather than simply altering the existing reimbursement rates.[13]

While incremental change may occur either from the internal dynamics of the system or from efforts emanating outside the system, the transformation of the system is likely to result from an external shock of considerable magnitude. Although efforts at incremental change often have a larger end game in mind, they tend to take a longer period of time to work through the system to result in substantial change in outcomes, and there is the possibility that the changes can be reversed. On the other hand, more fundamental (or non-incremental) change tends to be episodic and is more likely to create a more immediate, noticeable change within the system.[14] For example, there may be on-going improvements in a school system as a result of various efforts to create a better curriculum or to have better prepared teachers, but those changes tend to be incremental. Mayoral control of schools or breaking up a school district are two examples of non-incremental approaches to system change, which are typically fueled by dissatisfaction with more incremental efforts within existing systems.

In addition to the breadth or magnitude of change, the **time horizon** for change to unfold in a system is also important. While the consequences of changes in the formal rules of

---

[13] For a more elaborate and detailed analysis of the changes in the health care system over time in one community see Scott, et al. (2000).

[14] Another example of a fundamental change would be the replacement of the federal individual income tax with a consumption-based tax, as opposed to the continual incremental changes to the existing tax system through adjustments in tax rates or the tax base via tax deductions and exemptions.

the game are not always instantaneous,[15] they are likely to produce important changes if they are designed to disrupt behavior. The more fundamental the policy change the greater the time needed to win adoption of the policy change. While the policy change can take time, changes in norms and traditions are likely to take time as well. Changes in informal rules, by their nature, occur gradually over time; hence, the consequences of such change are likely to take considerable time to be discerned.

For example, the Robert Wood Johnson Foundation's *Prescriptions for Health*[16] program develops strategies for primary-care physicians to promote healthy behavior among patients. Evidence has shown that patients greatly value the health advice of their primary care physicians and are motivated to act upon that advice. Thus, the program attempts to maximize primary care physicians' attention to risky patient behaviors such as poor diet, alcohol abuse, the use of tobacco, or lack of physical exercise. The program further seeks to tailor practical, multi-layer strategies and interventions that involve "full office practice teams." These approaches include following-up with patients through email, offering telephone counseling, providing websites on health-related matters, and referrals to community-based clinics and services. Yet, an effort such as this must be diffused throughout the system in order to have a system-wide effect. Given the multiple actors that must alter their behavior, this approach creates a daunting challenge, as opposed to policy-change approach that provides a focal point for change.

System change focuses on ambitions for transforming systems and producing substantial improvements in outcomes. At least this is what foundations pursuing system change seem to suggest. And while such change might be achieved through sustained, incremental changes diffused throughout the system, there is a tendency to emphasize fundamental changes that shock a system. For instance, system changes in the healthcare field occurred in what Scott, et al (2000) describes as a "stepwise" fashion, in which periods of "gradual changes are punctuated by periods of turbulence." Driven externally by a greatly altered material resource environment, thanks to Medicare and Medicaid, and a new set of rules set up by federal agencies, the healthcare system changed dramatically when government agencies became the dominant institutional players in an arena once ruled by medical associations. Yet, as this case reveals, factors that lead to system change are not singular, not instantaneous, nor easily predictable. Rather the sources of change are multifaceted and are cumulative over considerable periods of time. This makes system change an ambitious undertaking with often ambiguous and unpredictable results. As a consequence, it creates numerous challenges for foundations pursuing such a strategy.

---

[15] Indeed, analysis of foundation strategies for public policy engagement underscores the importance of patience in achieving policy change given the unpredictable and ambiguous nature of the policy process; see Ferris (2009).

[16] For more information on this program, see: http://www.prescriptionforhealth.org/.

SYSTEM CHANGE AND FOUNDATION STRATEGY

Most foundations see change as central to their mission and often voice their ambition to create social change. Foundations have become increasingly strategic in using knowledge and evidence to develop theories of change and logic models to guide their grantmaking.[17] This enables them to focus on the critical leverage points – the points in which a concerted effort to catalyze a change that will affect the desired outcomes. Yet, the reality is that their strategies for change do not always match the ambition.[18] The system change framework helps foundations sharpen their strategy for achieving greater social impact. While the system change framework is no different than other efforts at strategic philanthropy in terms of developing theories of change and associated logic models, it highlights the need to discern which of the options are more likely to catalyze transformative change, underscores the links between policy change and system change, and encompasses a wider set of options for creating change.[19]

The system change framework identifies the complexity of a system with its wide array of actors, formal and informal rules of the game, and environmental conditions. By underscoring the complexity of a system, the approach is useful for introducing a more disciplined focus on the key drivers of change and help to identify the leverage points that can produce transformative impacts rather than more limited (localized), incremental changes. For example, many foundations approach school reform one school at a time. This can impact the lives of the students attending a particular school, but fail to achieve larger impacts if it is only a localized change. An alternative is to make a change at the district or state level that affects all schools within the system. Thus, one of the advantages of the system approach is to help foundations imagine how fundamental change can be achieved in a system. Which actors will have the most profound, broad-based impact on the system? What rules of the game are likely to have the greatest impact in terms of magnitude and diffusion throughout the system? Will continuous, incremental strategies diffused throughout the system result in system change or is a more fundamental change that creates disequilibrium in the system likely to generate the desired system change? At the same time, the complexity of a system should help to

---

[17] This approach to foundation decision making is laid out succinctly in Brest and Harvey (2008).

[18] This mismatch presumes that the foundation has already acted on developing a strategy. A recent study of foundation strategy suggests that foundations tend to use the rhetoric of strategy more frequently than the actual development and implementation of strategy (Bolduc et al. 2007).

[19] At the heart of this approach is a particular genre of logic models – system models – that informs the strategic choices of foundations. "The purpose of a logic model is to provide stakeholders with a road map describing the sequence of related events connecting the need for the planned program with the program's desired results" (Kellogg Foundation, 2004, p.3). As such, a system model may be thought of as a class of logic models. By identifying a system or group of systems in which a public problem or social condition occurs, and how the foundation's programmatic strategies fit into and impact that system or systems, foundations can better understand and inform their own activities and those of their grantees to create more lasting and sustainable change. For further discussion of the importance of logic models in foundation strategy and evaluation and associated theories of change see Frumkin (2006); and for the application of systems thinking to foundation evaluation see Kellogg (2007) and Patton (2008).

remind decision makers that creating system change is difficult and uncertain, and suggest to them the need for a tolerance for risk and patience.

The Role of Public Policy

The most easily understood lever for changing a system is to create fundamental changes in public policy. Indeed, it is hard to imagine a social system of interest to foundations that is not shaped to a substantial degree by public policy. In fact, there is much analysis that has occurred in recent years that explores the range of strategic choices and tactical options that foundations have for engaging public policy (Ferris, 2009; Arons 2007). Foundations can work to induce change in a system through their policy efforts, whether it is in introducing or encouraging new actors into a system through a change in policy; altering the formal rules of the game through policies that shape the incentives and constraints that actors face; or influencing macro-level conditions that have an impact on the functioning of a system.

However, discussions of foundation strategy for public policy change do not always adopt a system approach. For instance, the strategy of undertaking demonstration or pilot projects to produce innovative programs that can be "scaled up" through public adoption is already quite familiar.[20] And there is already an appreciation that not all public policy is equal in its impact; some policies produce incremental changes such as a change in property tax rates, and others have greater, more far-reaching impact such as constitutional limits on property taxes, for example, California's Proposition 13. Nonetheless, the system approach helps to underscore the relative advantages of policy changes that will create broad-based system change and those that will more likely result in more marginal changes.[21] In this regard, the system approach helps to complement foundation efforts in public policy engagement by focusing such efforts on those policy options that can produce system-wide impacts, and the associated leverage points.[22]

The system change framework, perhaps, has even more payoff in helping to articulate public policy options that might typically be assumed outside of the choice set. With a system model there is typically a greater range of factors that are explicitly included, and closer attention is paid to the dynamics of the model. For example, many of the logic models of school reform efforts focus solely on the education system. There is much attention given to curriculum redesign, improved teacher quality, and more effective

---

[20] It is possible that demonstration projects may not involve public policy changes (creation or expansion of public programs) at all, but instead may be exclusively focused on new models of service delivery that are diffused through communities by private action.

[21] The dilemma is that in some instances such changes occur after periods of rather incremental change. In effect, we do not have a good sense of precisely how such fundamental changes occur or when the forces will align. There is a need to understand not only the timing and magnitude of change within the system, but the timing for achieving non-incremental, rather than incremental, policy change.

[22] For a discussion of the leverage points for foundation engagement in the public policy process such as choice of venue, arena, and level see Ferris and Mintrom (2009).

school governance. But, the models that are typically used to analyze those options often preclude factors that can have an important impact on the system, such as the capacity of local governments to generate resources to fund public schools or the role of changing demographics. System models, by their nature, are more likely to include a wider range of public policies as possible levers of change than more narrowly construed models focused solely on a single casual relationship that holds many of the variables that might matter constant.

Beyond Public Policy

The advantages of a system approach extend beyond a more complete assessment of policy change strategies. The approach underscores the range of foundation strategies that can lead to system change without necessarily undertaking a change in public policy.[23] As we have previously pointed out, the system model underscores the importance of the behavior of key actors in driving a system. While it is true that public policies can alter the incentives and constraints under which those individuals or organizations operate, it is also true that their behavior may be altered through efforts to change the informal rules. Indeed, reshaping conventions, values, and norms can also be important in changing behavior. This may seem a more remote and ambiguous avenue to affect system change, yet there are scenarios in which the returns to such strategies may be effective, such as efforts to change organizational cultures through capacity building and leadership development, or producing research that influences thinking about professional practices, accreditation, or certification.

For example, it may be the case that prevailing standards of practice in particular industries can be altered to affect system performance. This is particularly true in the case of health care given the significant role of the private sector. There has been an increased recognition of the importance of cultural competency in the delivery of health and human services in ethnically and racially diverse communities. A recent review of a number of studies suggests that cultural (including linguistic) competency makes a difference in patient satisfaction and clinical outcomes (Goode, Dunne, and Bronheim 2006). For instance, patients that were given information consistent with their own preferred way of getting information had better rates of cancer detection and diabetes treatment than patients in the control group. Also, organizations that exhibited characteristics of culturally competent organizations, as defined by the National Center for Cultural Competence, were linked to greater levels of patient satisfaction and more appropriate treatment choices. These results can be used to inform private sector strategies that work to alter the behavior of actors in the private sector such as health care providers and insurance companies.[24]

---

[23] Interestingly, in modeling the impact of public policy, the underlying behavioral model includes norms and conventions, yet they are held constant in those models since they are not viewed as affected by public policy change in general (public education campaigns are an exception). However, these variables may become the potential focus of foundation efforts if a system approach is taken.

[24] Another example in the health care field is the National Committee for Quality Assurance which has operated since 1990 to accredit and certify health providers in order to improve health care. See www.ncqua.org for more information.

The system model not only expands the choices that foundations may pursue to alter the rules of the game, but it also helps to understand the interactions between formal and informal rules with a more sanguine appraisal of the impact of a bundle of rules. The system approach enables one to see how efforts at changing informal rules might be reinforcing or complementary to efforts designed to change the formal rules of the game, or how a change in formal rules will produce limited effects if not supported by informal rules. For example, given the evidence of cultural competency in improving health care outcomes, in addition to encouraging health care providers to adopt such approaches there might be complementary efforts to reinforce such efforts through public policy changes in publicly-financed programs.

Interestingly, this discussion suggests that public policy may not only be insufficient to create system change, but it may not be necessary either. The system change framework underscores the idea that creating policy change may not be sufficient. While public policy can be a catalyst for system change, many public policies have limited impact and do not create system change. Foundations interested in system change need to think beyond theories of change that are focused on explaining the impact of a particular public policy, and anticipate the relative magnitudes of various sources of change that occur within a system and the maze of interactions. But beyond the order of change, foundations need to understand that even success at public policy change may have limited impact if they are buffeted by informal rules of the game that work in the opposite direction.

The Complexity of System Change and Foundation Strategy

This discussion suggests that the interactions and feedbacks that are inherent in a system model are helpful at anticipating the cumulative impact of changes within a larger system. Such a framework enables foundations to more accurately assess the relative benefits, costs, and risks of alternative strategies. This is in contrast to the more typical models that foundations utilize that are portrayed as "predictable, unidirectional, and sequential" (Supovitz and Taylor 2005). Foster-Fishman et al. (2007) develop a schematic that is included below that compares the traditional logic model and one that embraces the system approach.

The schematic shows that the links between a foundation's intervention and desired social outcomes are often circuitous rather than linear. Moreover, a better understanding of the process that follows from an intervention to the observed outcome highlights the fact that serial, causal relationships that are assumed in the models have a degree of uncertainty in the sense that there are numerous links that must occur, and that there is a degree of imprecision as to the timing and magnitude of the causal relationships. There are multiple points at which a hypothesized effect may not be realized, whether it be from a theory failure or an implementation failure.[25]

---

[25] For a discussion of the issues of identifying the source of unrealized intended outcomes between theory failure and implementation failure see Weiss (1980).
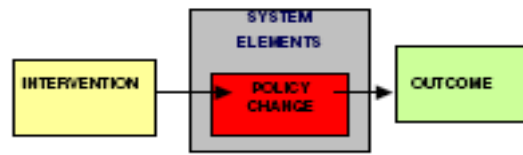
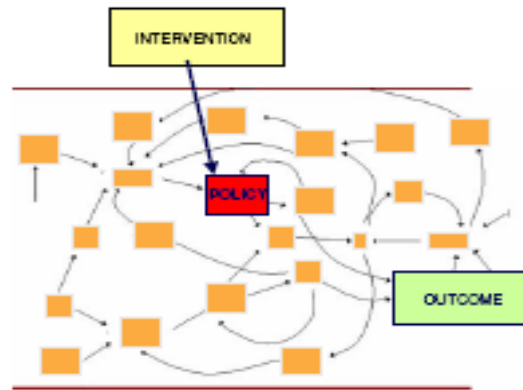Fig. 1 Common example of a systems change intervention model

Fig. 2 Our proposed model of systems change

Understanding this complexity should help to underscore the fact that there is a degree of risk in being able to achieve the desired outcomes. In many ways, these lessons about the risks associated with a system change strategy mirror the lessons from foundation efforts at policy engagement (Ferris 2009). The only difference is that the risks are even greater given the larger opportunities for changes elsewhere in the system to intervene; the more evolutionary nature of changes in informal rules; and the greater likelihood that relationships within the model might be specified incorrectly.

IMPLICATIONS FOR FOUNDATION PRACTICE

This exploration of a system change approach for foundation strategy has implications for foundation practice. They are similar to those that are derived from an assessment of the consequences of public policy engagement for the work of foundations. The key difference is that the system change approach only magnifies the need to adjust many of the more traditional foundation practices if a foundation intends to engage in system change efforts.

Foundations have an array of assets at their disposal – money, knowledge, and networks – that they can deploy to influence change. Yet, their resources often pale in comparison to the system that they are attempting to influence. Thus, there is a need to think through how best to leverage those assets. Beyond the design of strategy, there is a need to develop tactics that are effective.

One of the principle lessons from efforts to change a system is the recognition that it cannot be done alone.[26] There is a need to work with others to foster change in the system. This includes other foundations as well as nonprofit partners – both advocates and service providers – as well as other change agents from wherever they come. It may often include building coalitions, networks, partnerships or other structures that enable like-minded actors to coalesce forces for system change.[27] Perhaps more importantly, the system approach also enables foundations to see how their efforts may be complementary to the work of others. Given the multiple leverage points in a system, there is an opportunity for foundations to realize how their different efforts might be loosely coupled to create system change. For instance, the work of a foundation working to expand access to insurance is complemented by the efforts of a foundation working to increase cultural competency. Together they can have a more substantial impact on health care outcomes produced by the health care system. With more coordination, cooperation, and collaboration, there is a greater possibility of creating system change.

Another lesson from public policy engagement that carries over to efforts to create system change is the time horizon for change to be realized. The results of such work may be realized over a number of years, often long past the planning horizon of many foundations. This requires that foundations achieve substantial buy-in from board and senior staff for the strategy that it is pursuing. In addition, while a commitment to strategy is essential, it is just as important to allow flexibility as the foundation learns about its work and recognizes exogenous changes in the system.[28] This enables the foundation to adapt its model and strategy to changing circumstances.[29]

Aside from the issues of timing and flexibility, there is a greater need for foundations to tolerate the risk of failing to deliver the intended outcomes. The board must be willing to understand the uncertainty that comes with efforts to change a system and accept the risk. The aspiration of creating significant social impact must be coupled with the sobering realization of the challenge of the task. There is a need to fully explore the relative benefits, costs, and risks of different approaches and strategies in the foundation's work. And while efforts to provide new tools for evaluating policy and system change might

---

[26] Nor is it likely to be the case that the foundation is the only one trying to change the system; sometimes there are foundations or other change agents working simultaneously to create different kinds of system change.

[27] For an exploration of these issues, see Bernholz (2002) and Sharp (2003).

[28] For a discussion of organizational learning that emphasizes the importance of systems thinking see Senge (1990).

[29] Of course, efforts to achieve system change because of their transformative nature may encounter more resistance from entrenched interests within the system than incremental change efforts. For example, fundamentally changing healthcare might place new burdens on employers, drug companies, or doctors. Also, there is often difficulty to undoing system changes; for example, the ancillary problems that have arisen as a result of Prop. 13 in California on other areas of public and private life are not easily undone, even if the tax limit were repealed.

assuage these concerns to some extent, the fact remains that there is a greater range of uncertainty that accompanies these efforts.[30]

Foundations that choose to engage in system change work will need to examine how they acquire the capacity for developing and utilizing relevant theories of change and the related logic models, designing strategies and devising tactics, and evaluating foundation performance. This suggests a foundation staff that possesses a set of skills that not only includes knowledge of a particular programmatic area, but has the ability to work across several areas or fields. Given the importance of public policy to system change, it suggests that there is a need for foundation staff to have an understanding of the policymaking process and how public policies can alter behavior to achieve desired outcomes. It also emphasizes the need for staff with an understanding of how values and conventions in professions and communities can have an influence on relevant behaviors, and the interplay between public policy and the informal rules of the game. In addition, the system change approach underscores the need for staff with an aptitude for the policy sciences – modeling, policy analysis, and evaluation – given the importance of such analytics.

Besides the issue of what human capital a foundation needs to accomplish its work, there is the perennial question of how to acquire and organize such talent. What is the desirability of ensuring that the more specialized skill sets needed for system change work are embodied in foundation staff rather than a reliance on consultants? And, what is the optimal structure for organizing the skill sets within the foundation?[31]

CONCLUSION

As foundations work to leverage their philanthropic assets to achieve greater social impact, there is a keen interest in designing strategies that create transformative rather than incremental change. In pursuit of such an objective, there are more frequent conversations about foundation efforts to create system change. Beyond the greater aspirations that "system change" conveys, there is not a great deal of clarity among foundations about what exactly system change means, nor what it takes to accomplish it.

This paper provides a framework to better understand what a system change approach means in the context of foundation strategy and the implications for foundation practice. It begins by providing a succinct, non-technical definition of a system that is useful and useable by foundations that are interested in creating system change through their work. This discussion moves the use of "system" from a metaphor to a framework that can guide foundation choices.

---

[30] For a new tool on practical evaluation techniques using systems concepts see W.K. Kellogg (2007); for evaluation strategies addressing policy change and advocacy see The California Endowment (2006).

[31] The issue of organizational design will be, in part, a function of the scale and scope of the foundation as well as the complexity and diversity of foundation programs.

The system model underscores the complexity of creating change within a system. By identifying the important components – the actors, the rules of the game, and the environmental conditions – and the interactions and dynamics among them, the model is not simply linear or unidirectional as are many of the models that underpin foundation work. The system model is not simply focused on a single actor or a particular rule of the game either, but rather an expanded set of intervention points.

As a consequence, foundations are more apt not only to appreciate the importance of public policy, but the importance of public policies that produce fundamental changes – policies that go beyond merely localized or incremental changes to achieve change that is transformative. Beyond public policy changes, the model also underscores the importance of changes in informal rules – conventions and norms – such as professional standards or business practices. Moreover, the model highlights the importance of creating laws, regulations, and rules in the policy arena that are in sync with the relevant traditions and customs that shape the behavior of key actors.

This analysis of a system perspective for foundation strategy emphasizes important challenges for foundations that choose to do this work, including the need for more collaboration, a longer time horizon for results to be discerned, and a greater tolerance for risk. In addition, this approach suggests additional considerations for foundations in terms of how they develop their human capital and organize their work.

REFERENCES

Arons, David F. ed. (2007). *Power in Policy: A Funder's Guide to Advocacy and Civic Participation*. Minneapolis: Fieldstone Alliance.

Bernholz, Lucy (2009). "Critical Junctures: Philanthropic Associations as Policy Actors," In James M. Ferris, (Ed.) *Foundations and Public Policy: Leveraging Philanthropic Dollars, Knowledge, and Networks for Greater Impact.* New York, NY: The Foundation Center.

Bloom, Paul and Gregory Dees (2008). "Cultivate Your Ecosystem," *Stanford Social Innovation Review*, Winter, 47-53.

Bolduc, Kevin, et al (2007). *Beyond the Rhetoric: Foundation Strategy,* The Center for Effective Philanthropy.

Brest, Paul and Hal Harvey (2008). *Money Well Spent.* New York, NY: Bloomberg.

The California Endowment (2006). The Challenge of Assessing Policy and Advocacy Activities, Parts I and II. Researched and written by Blueprint Research & Design, Inc.

Ferris, James M. (2009). *Foundations and Public Policy: Leveraging Philanthropic Dollars, Knowledge, and Networks for Greater Impact.* New York, NY: The Foundation Center.

Ferris, James M. and Michael Mintrom (2009). "Foundations and Public Policymaking: A Conceptual Framework." In James M. Ferris, (Ed.), *Foundations and Public Policy: Leveraging Philanthropic Dollars, Knowledge, and Networks for Greater Impact.* New York, NY: The Foundation Center.

Frumkin, Peter (2006). *Strategic Giving: The Art and Science of Philanthropy*. Chicago, IL: University of Chicago Press.

Foster-Fishman, Pennie; Nowell, Branda; Yang, Huilan (2007). "Putting the System Back into Systems Change: A Framework for Understanding and Changing Organizational and Community Systems." *American Journal of Community Psychology*. (39). 197-215(19).

Goode, T. D., M. C. Dunne, and S. M. Bronheim (October 2006). "The Evidence Base for Cultural and Linguistic Competency in Health Care." Retrieved from The Commonwealth Fund Website:*http://www.commonwealthfund.org/publications/publications_show.htm?doc_id =413821#areaCitation*

Grief, Debbie, Tony Proscio and Carol Wilkins (July 2003). "Laying a New Foundation: Changing the Systems that Create and Sustain Supportive Housing." Corporation for Supportive Housing.

Midgely, Gerald (2007). "Systems Thinking for Evaluation" in Bob Williams and Iraj Imam (Eds.). *Systems Concepts in Evaluation: An Expert Anthology*, EdgePress/American Evaluation Association.

North, Douglass (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

Patton, Michael Quinn (2008). *Utilization-Focused Evaluation*, Thousand Oaks, CA: Sage Publications.

Robert Wood Johnson Foundation. "Prescriptions for Health," Retrieved January 12, 2008, from the Prescriptions for Health Web site: http://www.prescriptionforhealth.org

Scott, W. Richard, Martin Ruef, Peter J. Mendel, and Carol A. Caronna (2000). *Institutional Change and Healthcare Organizations: From Professional Dominance to Managed Care*. Chicago, IL: University of Chicago Press.

Senge, Peter (1990). *The Fifth Discipline: The Art and Practice of the Learning Organization.* New York, NY: Doubleday.

Sharp, Marcia, (2002). "Foundation Collaborations: Incubators for Change?" Research Paper-14, The Center on Philanthropy and Public Policy, USC.

Sterman, John D. (2002). "All models are wrong: reflections on becoming a systems scientist," *System Dynamics Review.* (18). 501-531.

Supovitz, Jonathan A., and Brooke Snyder Taylor (2005). **"**Systemic Education Evaluation." *American Journal of Evaluation*. (26). 204-230 (2).

Weimer, David L. and Aidan R. Vining (1989). *Policy Analysis: Concepts and Practice*, 4th Edition. Upper Saddle River, NJ: Pearson Education, Inc.

Weiss, Carol H. (1972). *Evaluation Research: Methods of Assessing Program Effectiveness.* Englewood Cliffs, NJ: Prentice Hall.

W.K. Kellogg Foundation (January 2004). "Logic Model Development Guide: Using Logic Models to Bring Together Planning, Evaluation, and Action." Retrieved from the W.K. Kellogg Foundation Web site: http://www.wkkf.org/Pubs/Tools/Evaluation/Pub3669.pdf

W.K. Kellogg Foundation (September 2007). "An Overview: Designing Initiative Evaluation: A System Oriented Framework for Evaluating Social Change Efforts." Retrieved from the W.K. Kellogg Foundation Web site: http://www.wkkf.org/Pubs/Tools/Evaluation/