

THEORY OF CHANGE FOR FUNDERS

Planning to make a difference

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December 2014

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INTRODUCTION

Theory of change—the process of mapping out in detail how you expect change to happen—is being used by more and more charities as a tool for strategy and evaluation. Some of its popularity can be attributed to funders asking charities to provide a theory of change as part of their application or evaluation. But can a theory of change also be useful for funders themselves, and how does the tool differ when applied to funders?

Most funders do not have a thoroughly worked out theory of change—many are not very strategic and have not always thought through their assumptions about how they think impact happens. Many funders have broader aims than a charity does, making a theory of change more difficult to do. This lack of a theory of change can lead to missed opportunities in the charity sector: things are not joined up, and crucial elements of what makes change happen are not funded. NPC believes that more funders should consider developing a theory of change to work through the difference they want to make. This could help them assess whether they are working as well as they could be, and understand how to improve.

What is a theory of change for funders?

A theory of change is a tool that shows the path from needs to activities to outcomes to impact. It describes the change you want to make and the steps involved in making that change happen. Theories of change also depict the assumptions that lie behind your reasoning, and where possible, these assumptions are backed up by evidence. In short, a theory of change helps an organisation to show how it makes a social impact—what it aims to change, and how that change occurs.

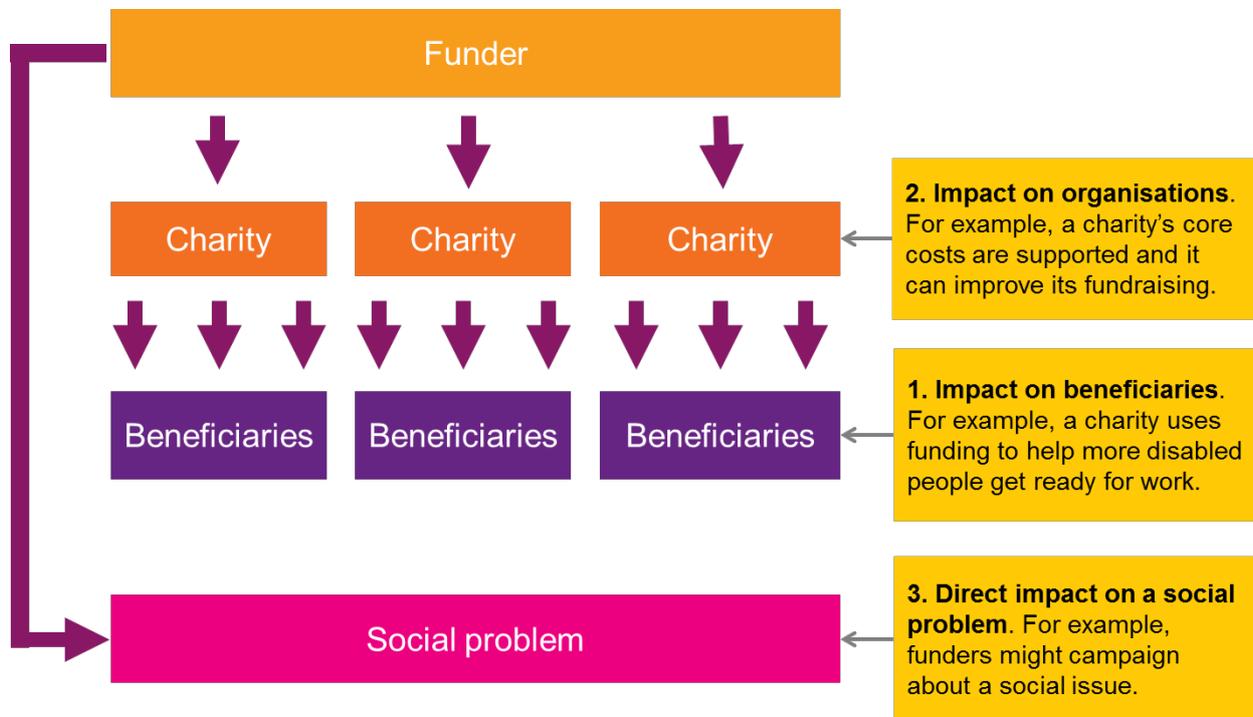
Funders can achieve social impact in a number of different ways, as shown in Figure 1.

1. Funders can have an **impact on beneficiaries** through funding charities to deliver services—for example, through funding a charity to work with disengaged young people, more students stay in school.
2. Funders can have a **wider impact on organisations** beyond funding direct service delivery, through supporting them to become more efficient and effective at achieving their mission. For example, through providing funding in a difficult time, a funder may help an organisation to stay afloat and therefore conserve important knowledge and expertise. Through capacity-building work with grantees, a funder can help a charity become more efficient—with governance or measurement training, for example. Many funders fund pilot projects in the idea that they can prove they work and then be scaled up. Funders can also influence an organisation's effectiveness through their funding style: flexible funding can help charities be more responsive, while a more prescriptive approach can support charities to be more organised.
3. Funders can have a **direct impact on a social problem** through their own activities. Funders themselves can be important agents for change: for example, they can use the experiences of their grantees to advocate on their behalf, or spread good practice about what works.

Thinking around funders' impact is most often concentrated on the impact they have on beneficiaries through funded organisations, rather than their impact on how those organisations work, or their direct impact on a problem through their own work. Additional impact beyond that achieved directly by grantees is often not well understood. This is an area where funders might have assumptions that they have not properly worked out—for example, if they pay for the pilot of an intervention and the research to show its effectiveness, it will then be scaled up by statutory funders. As a result it can be difficult to assess what the impact a funder has, and how it

might have more impact. Theory of change can help to show the links between these three types of impact and ensure a broader view and richer understanding of a funder's role.

Figure 1: Types of impact of funders



Theory of change can be a useful strategy and evaluation tool for funders that achieve impact at all these levels; however, the format and use of a theory of change will vary. A theory of change is often presented as a diagram showing activities and outcomes, but it does not have to be. It can also be a narrative describing the change you want to see and the causal links involved in getting that change.

This report

This report talks through three different types of theories of change, each relating to one type of funder impact:

- a theory of change for impact on beneficiaries;
- a theory of change for impact on grantees; and
- a theory of change for impact on a social problem.

For each theory of change, the report discusses the associated benefits, how the theory of change should be used, and what types of funder it is useful for.

TYPES OF THEORY OF CHANGE

A theory of change for impact on beneficiaries

Most funders aim to achieve a positive social impact for beneficiaries by funding charities to deliver services. Because they typically fund more than one charity to deliver services for more than one beneficiary group, funders tend to have a wider remit than charities. Funders' stated aims are generally fairly broad: *'our mission is to maximise opportunities for individuals and communities to realise their potential and enjoy a better quality of life.'* A charity will usually have a more defined target group and aim—for example: *'The Prince's Trust works with disadvantaged young people aged 13-30. Through the provision of innovative, high-quality personal development opportunities, it helps young people to get into work, education, self-employment or training.'*¹

This wide remit makes theory of change for impact on beneficiaries more complicated for a funder than for a charity, as there are so many potential ways to achieve their mission. If a funder's aims are not narrowed down from *'maximising opportunities'* then a theory of change about the outcomes involved would be so large as to be almost useless. A theory of change for the impact on beneficiaries is most useful when there is a well-defined goal; for example, to *'improve the educational outcomes of people from low-income households'*. The theory of change can then work backwards from that end point to set out the intermediate outcomes that you would expect to see, and potentially what activities you expect to fund to achieve these outcomes.

Some funders do not have a well-defined overall goal for all their funding. But they might have more specific goals for funding a particular programme, or for what they want their funding to achieve over a limited period of time, and can develop a theory of change for these areas. Otherwise, funders are limited in what they can say about how they plan to achieve their mission—their plans depend on the plans of the charities they fund.

Many funders have distinct streams of funding within their work that are quite disparate. For example, they may fund one stream of work around environment, another around social care, and another around faith. In these cases, it may be worth developing a separate theory of change for each funding stream, and looking at the links between the programmes, rather than developing a single overarching theory of change.

Benefits of this type of theory of change

The benefits of a theory of change differ depending on how far a funder is able to go in completing one. Some funders are able to draw out a full theory of change, whereas others are only able to do a partial theory of change.

A full theory of change

A full theory of change is where all or most of the steps in the chain are worked out. It describes the goal, all the intermediate outcomes leading up to that goal, and potentially also the activities that lead to those outcomes.

This type of theory of change is useful for funders concentrating on solving one particular social problem—for example, *'increasing the number of homes for low-income people'*—either with all their funding, or with particular funding programmes. A theory of change for impact on beneficiaries is easier when the funder has quite a narrow goal—so, *'increasing the number of homes for low-income people'* is narrower than *'improving housing conditions'*—and where funders are willing to state the intermediate and final outcomes they want to see. But funders that state their desired intermediate outcomes are not that common, for a number of good reasons. Many

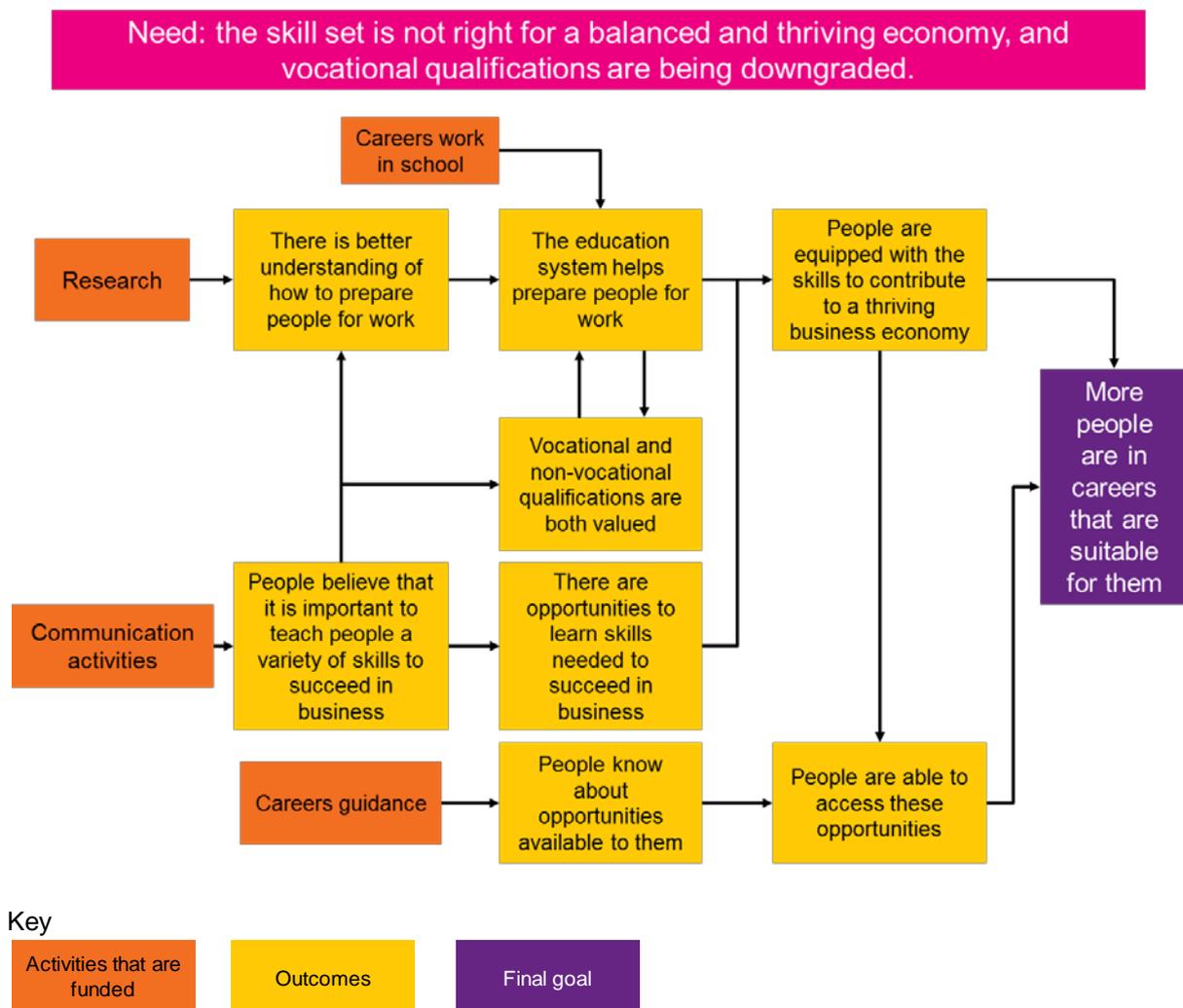
¹ Taken from The Prince's Trust Summary Information Return 2013 at www.charitycommission.gov.uk.

areas lack the evidence base to allow funders to confidently set out causal links leading to their goals. Because of this, few funders specify to applicants what activities or intermediate outcomes they expect to see. Generally, funders that are prescriptive are those that have built up expertise in an area that rivals that of the charities they fund. Some funders actively choose not to dictate how they expect charities to achieve a social aim, but instead to respond to charities' suggestions. Therefore, there are relatively few funders that would be able to draw out their theory of change in its entirety.

However, a funder does not necessarily have to draw up their own theory of change. Theories of change for achieving a goal can be developed collaboratively with a number of players within a sector. Sector-level theories of change can be a powerful way to bring together organisations in a sector and galvanise change. Charities and funders can then collaborate to make sure all the elements in that theory of change happen, using the theory of change as a clear guide.

Figure 2 illustrates what a full theory of change looks like. This theory of change shows the aim to get more people into suitable careers; the yellow boxes describe the outcomes leading up to that. It also shows the activities (in orange boxes) that lead to those outcomes.

Figure 2: a simplified full theory of change



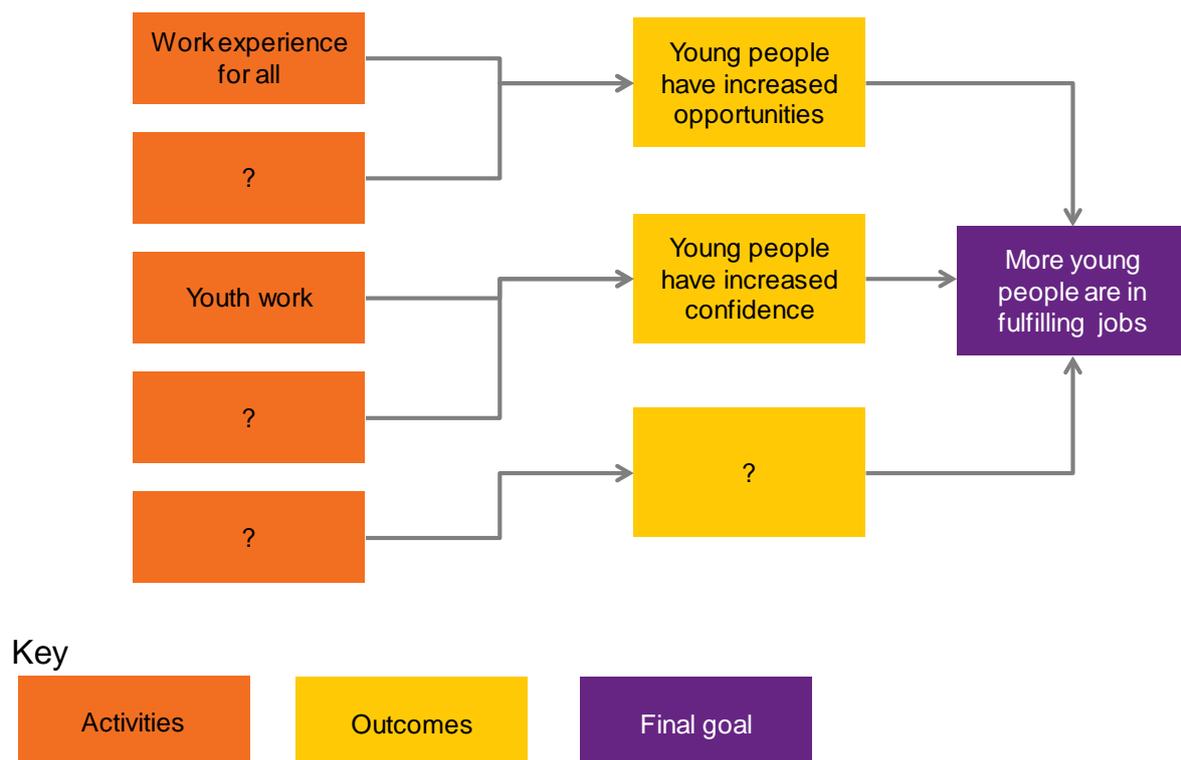
This type of theory of change has a number of benefits.

- It helps to focus staff and trustees on the goal and ensures that all funding is directed to achieving that goal. As the theory of change is worked out in some detail, it can be used to check that everything the funder does or funds furthers its aim, helping to prevent mission drift.
- It helps a funder to have an impact that is bigger than the sum of its grantees' impact. As the funder has thought through what it wants to happen and is funding all the constituent parts, it is helping the whole system work better. The potential for unfunded parts of the system to detract from its grantees' impact is avoided.
- It makes it clear to applicants what a funder is interested in. This type of theory of change is quite detailed and therefore provides clear guidance to potential grantees.
- It ensures that causal links are laid out and understood, and where possible based on evidence. Effective funding should be based on evidence that one outcome leads to another, or that an intervention works. A theory of change that spells this out should make clear what is known about what works, and what is not yet known. This can also help to show where resources for evaluation should be prioritised.
- It is the basis for an evaluation framework. As the outcomes are all laid out, it makes it easier for funders to decide what they should measure.
- It helps to work out which organisations would be good partners for collaboration. A theory of change should make it clear what you do, but can also help you identify other pieces of the puzzle that need to be in place.

A partial theory of change

Funders that specify exactly what they want to fund are not the norm. Much more common are those that have a goal and some ideas about what outcomes they want to achieve, but not a specific path to achieving them. These types of funders may have a theory of change with gaps, and rely on the charities they fund to fill in the gaps to show how best to achieve the intermediate outcomes. In Figure 3, for example, the final goal is stipulated, as are some of the outcomes that lead to that goal. But the funder is open to the idea that charities may suggest other outcomes that lead to the goal. This type of theory of change is best for issues where the evidence is not strong enough for funders to be certain about how change happens.

Figure 3: Simplified example of a partial theory of change



The main benefits of using this type of theory of change are:

- It makes it clear to grantees what you want to fund, outlining in as much detail as possible what outcomes you are looking for. A partial theory of change is unlikely to state the activities that lead to those outcomes, but it might suggest what type of activities a funder expects to support.
- It ensures that the causal links are laid out and understood, and where possible based on evidence. A partial theory of change shows where the evidence is stronger, and where it is not.
- It can be the basis for an evaluation framework. This type of theory of change sets out the main outcomes that funders expect to see, so can be used by them to see if work is on track. It may be that over time, as evidence emerges, the theory of change can be further populated.

Theory of change for impact on grantees

Some funders may have broad aims for the impact they want to see on beneficiaries, but a consistent theme of their funding is to support grantees’ organisational development. This support may be through funder-plus activities—for example, by providing capacity-building support. It may also be reflected in the types of charities funders choose to support—if they believe that people are best able to help themselves, they may only support volunteer-based or user-led organisations, and may show more interest in a charity’s approach than what problem it is trying to address. Its support may be evident in the processes a funder uses; for example, it can give funding quickly to help a charity in a cash flow crisis or when a sudden need arises. Some funders are interested in helping grantees or new interventions to scale, and only fund pilot work. For some funders this organisational support may be a central part of their work, while for others it will be a secondary consideration.

This type of work is often an important, but understated part of what a funder is trying to do. It is frequently an area where a funder has assumptions and hypotheses that are not spelt out and therefore can be difficult to judge the impact of. This is where a theory of change can be very helpful in helping to decide the strategy and then measure how well it is working.

Figure 4: Simplified theory of change for funders’ impact on charities

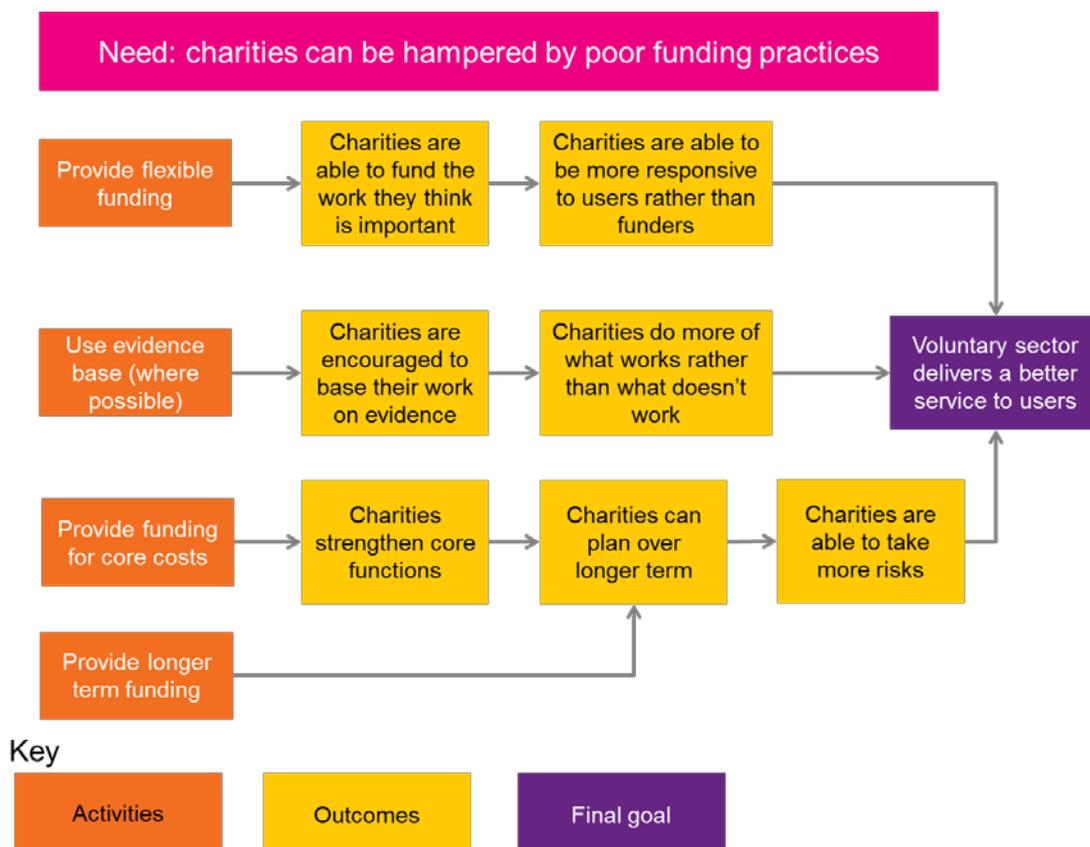


Figure 4 depicts a funder that is deliberately trying to behave in a way that is helpful to grantees. The desired outcome is a stronger voluntary sector able to deliver a better service to users. The funder supports this through providing flexible funding, using an evidence base, funding core costs, and providing longer-term funding.

Benefits of this type of theory of change

This type of theory of change has a number of benefits.

- It makes it clear what you are trying to do and why—the process involves strategically thinking through what organisations a funder should support, and how. The finished theory of change tells applicants what type of support a funder can offer, to what type of organisation.
- It makes it easier to measure the impact of the activities you fund. It is important to understand whether spending is worthwhile. Some funders put a great deal of effort into developing organisations, and so it is important to understand the impact.
- It makes clear to grantees the reasons why you do certain things—for example, the reason why you ask for information about impact in a particular way.

Theory of change for a funder's impact on a social problem

When a funder operates as an agent of change itself rather than through others, its theory of change is very similar to that of a charity. Some grant-makers spread best practice by convening networks or publishing work, others campaign, and some even provide services themselves. Those that collaborate with others—both funders and charities—to generate a sector theory of change and fund according to that will have a better understanding of the need they are trying to address and how to collaborate to change it.

As usual, a theory of change here should work backwards from the social problem, through the intermediate outcomes to the activities. It should provide evidence, where it exists, of why this theory of change should work.

Benefits of this type of theory of change

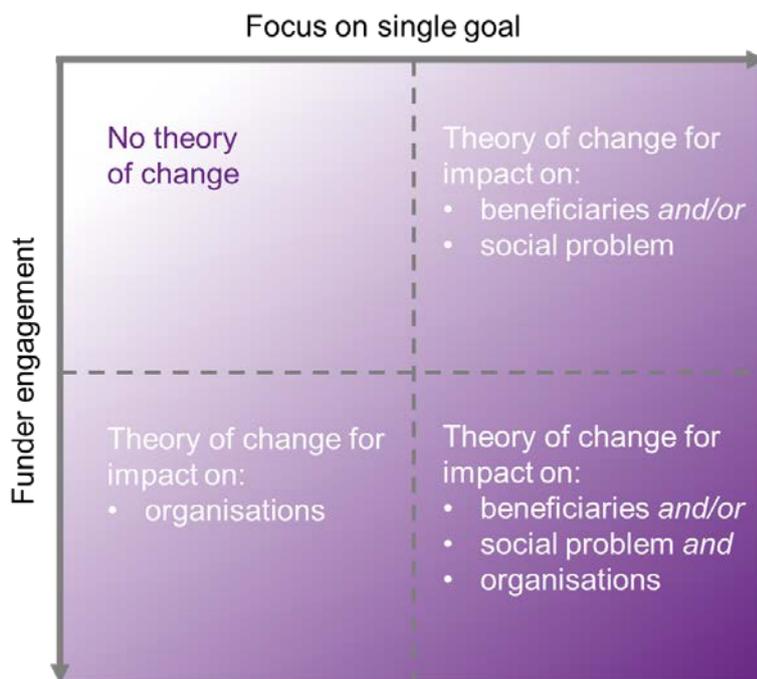
The benefits of this type of theory of change are the same as for any charity.

- It helps work through whether your activities make sense given your goals.
- It helps to identify things you do that may not help you meet your goals.
- It helps you think through whether there are other organisations that you should be working with in order to meet your goals.
- It helps prioritise your impact measurement, and measure things that are important for your strategy.

WHICH THEORY OF CHANGE IS APPROPRIATE?

The type of theory of change that is useful will differ depending on the type of funder. As Figure 5 shows, the more focused a funder is on achieving a single goal, the more useful a theory of change about the impact on beneficiaries is. The more impact a funder aims to have on organisations—through picking certain types of charities, or through funder-plus activities—the more useful a theory of change looking at organisational development is. Those funders who both have a focused aim, and are trying to improve the efficiency of organisations they support should try to include both elements in their theory of change. If a funder supports a broad range of outcomes but does not offer anything other than funding, a theory of change can add very little.

Figure 5: How to decide on a theory of change



Many funders have a goal, but not necessarily a strategy for achieving that goal. A theory of change will help funders to think through what a strategy might look like. We advise funders to think about what type of funder they are, how they are trying to achieve impact, and how theory of change can help them plan to achieve this.

What if theory of change is not for you?

Theory of change works best for funders with a clear goal, either at as an overall funder or at a programme level—and that is not all funders. Some funders have a broader, more generalist approach to their funding. These funders are useful for the charity sector—if all funders had very specific aims, it would be difficult for the sector to respond to emerging needs. However, going through the process of working out a theory of change may encourage a fund's trustees to consider having a narrower aim. There are advantages to being more strategic:

- Concentration of resources makes it easier to have an impact on one area.
- It makes it easier to develop specialist knowledge about an area, have a deeper expertise and make better grants.
- It makes it easier to develop partnerships and collaborations.
- It makes it easier to measure your impact.

NPC believes that the charity sector could be more effective if more funders were more strategic. This does not mean tying down everything, but being clear about what you want to achieve and why you think your approach is the best way to go about this. Developing a theory of change can help funders to be more strategic, and we would like to see more funders going through this process to help plan, explain and evaluate their work.

Theory of change for grantees

Even if funders decide that they do not want to narrow down their focus to the point where a theory of change would be useful, it is still helpful to understand as a tool that many charities use. Developing a theory of change is often a worthwhile process for charities. It helps them think through their strategy and explain it concisely, and provides a basis for measuring impact. Once a charity has measured its impact, a theory of change provides a framework to understand the evidence it has collected, and use it to review and refine strategy to improve its effectiveness.

Funders can encourage applicants and grantees to use a theory of change to think through their strategy and impact measurement. Some funders do this already—not always by requesting a complete theory of change diagram and impact measurement plan, but sometimes just by asking the key questions that underlie a theory of change.

- What is the problem you are trying to address? What evidence is there for this problem?
- What is the long-term goal that you are working towards?
- What are outcomes that, if achieved, will help meet the long-term goal?
- What are the activities that contribute to the outcomes?
- Which activities lead to which outcomes and what evidence is there for this?
- What are the constraining factors that mean you might not achieve those outcomes?
- What are the influencing factors (external and internal) that help you achieve those outcomes?

This is especially relevant for funders that are looking to grantees to provide the rationale for how change should happen; for example, funders that aim to promote innovation and new approaches. Here, funders should make sure that charities themselves have a good explanation and understanding of the evidence about how change happens.

CONCLUSION

More and more funders are asking themselves whether and how they should be using theory of change. Funders often fall victim to many of the same mistakes that charities are criticised for—for example, not basing their work on evidence, or saying that outcomes will be achieved that are too much of a leap from their activities. A theory of change can help a funder to overcome these pitfalls and think more strategically about what they aim to achieve.

But theories of change are not for all funders. Some funders give too broadly for a theory of change to be useful. Broad, responsive funding is useful for the charity sector as it allows approaches to new and emergent needs to be funded, and that, for some funders, is a goal in itself. However, NPC believes that the charity sector would be more effective if more funders took a more strategic approach where they better understood the needs, and what works to address them. We believe every funder should think carefully about what type of funder they are, and why; a theory of change can help to clarify this, even for those that fund many different issues. For example, if a funder is providing funder-plus activities it should think through how these will contribute to achieving the social impact it seeks, and check that its support is useful to grantees in practice.

Even for those funders with a remit that is too broad for a theory of change to be useful, we believe it is a useful tool for them to be familiar with for their grantees' sake. Funders can improve their grant-making practices by encouraging grantees to think through key questions in a theory of change, helping them to develop strategy and learn from good evaluation.

Theories of change are most useful when they are kept as a living document that is continually updated. Funders could help to expand knowledge of what is working by publishing their theories of change and updating them as information from their grantees comes in. This would help funders and charities to learn from each other, refine their approach, and increase their impact.

TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

Increasing the impact of funders: NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

Strengthening the partnership between charities and funders: NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

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