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SOCIAL SECTOR PRACTICE

Using prizes to spur innovation

Prizes used to spark innovation are on the rise. Philanthropists—as well as players in the public and private sectors—must understand how to use them in the most effective way.

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The use of prizes by philanthropies and private businesses to encourage innovation and achieve social benefits is burgeoning. A McKinsey study of prizes worth more than \$100,000 suggests that the aggregate value of such large awards has more than tripled over the past decade, to \$375 million. Moreover, the role of prizes is changing: nearly 80 percent of those announced since 1991 have been designed to provide incentives for specific innovations rather than to reward excellence in general. An understanding of the characteristics of effective prizes and of how they are evolving would be useful for not only philanthropists but also public- and private-sector players hoping to harness their potential for innovation.

To learn how prizes are meeting the goals of the philanthropies that finance them—and how their effectiveness might be improved—we studied 219 prizes, each with a value of \$100,000 or more; interviewed about 100 experts on innovation, prizes, and philanthropy; and surveyed the sponsors of 48 major awards. Further, we conducted in-depth interviews with the sponsors and administrators of 12 public, private, and philanthropic prizes that have particularly interesting strategies, designs, and management practices.¹

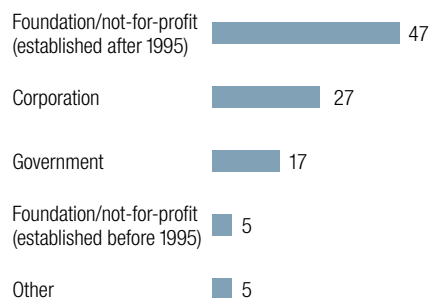
We found that prizes are growing sharply in size, number, and variety (Exhibit 1). Upward of 60 prizes in our database have debuted since 2000, representing \$250 million in new prize money. Meanwhile, the goals of the prizes are changing: the traditional recognition

¹This article is excerpted from a longer report, *And the Winner is...Capturing the Promise of Philanthropic Prizes*, available online at http://www.mckinsey.com/client/service/socialsector/And_the_winner_is.pdf.

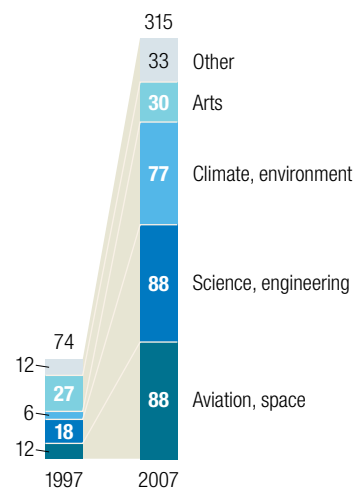
Exhibit 1

The size of the prize

Sources of philanthropic prize capital, 2000–07,¹ %



Distribution of philanthropic prize capital by sector,¹ \$ million



¹Figures do not sum to totals, because of rounding.

of excellence is giving way to the promotion of specific innovations and novel ways of achieving certain objectives. Businesses and the “new philanthropists”—baby boomers, such as Richard Branson, who are now funneling a lot of money to achieve social goals—increasingly dominate the pool of sponsors, providing more than two-thirds of the prize capital since 2000. This shift in part explains the expansion of prizes in areas such as science, engineering, aviation, space, and the environment. By contrast, prizes related to the arts and humanities represented one-third of the total a decade ago but make up less than 10 percent today.

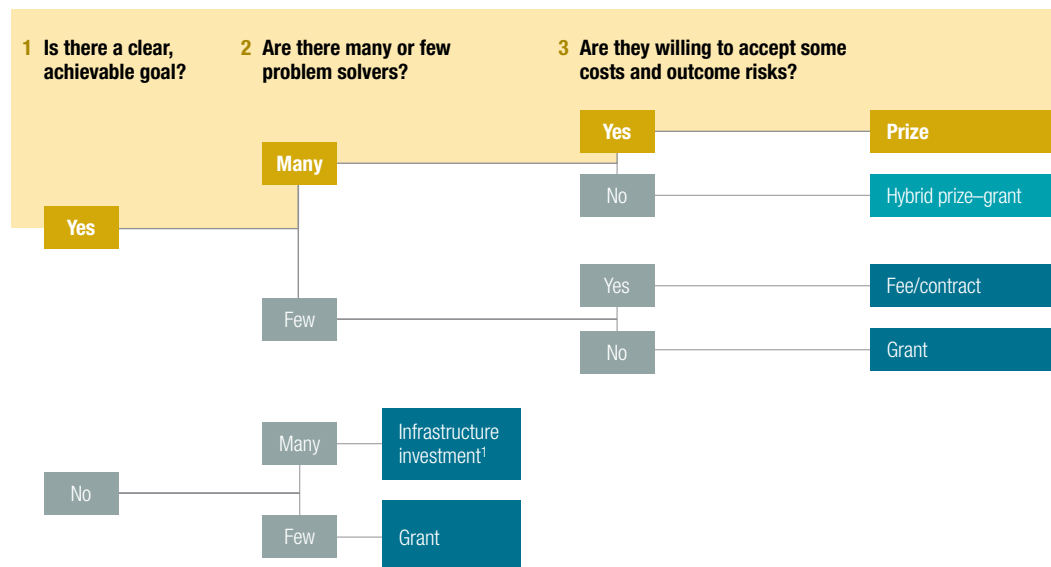
When are prizes more effective than other kinds of philanthropic instruments? Our research suggests that three conditions are paramount: a clear objective (for example, one that is measurable and achievable within a reasonable time frame), the availability of a relatively large population of potential problem solvers, and a willingness on the part of participants to bear some of the costs and risks. Teams competing for the \$10 million Ansari X PRIZE to develop spacecraft capable of entering space and returning safely twice within ten days, for instance, spent more than \$100 million in the pursuit.

If one or more of these conditions can't be met, potential prize givers should consider alternatives such as grants or a combination of prizes and other instruments (Exhibit 2). Indeed, some prize sponsors have adopted a portfolio approach to social change. The

Exhibit 2

Choosing wisely

Selecting the right philanthropic instrument



¹For example, a foundation could invest in strengthening a research institution (by endowing chairs or building facilities) or in building capacity at nonprofits or other service-delivery organizations.

The six archetypes

	Goal of prize	Example
Exemplar	Focus attention on, set standards in, or influence perceptions of a particular field or issue.	Nobel Prizes reward excellence and influence thinking in specific areas.
Exposition	Highlight a range of best practices, ideas, or opportunities within a field.	PICNIC Green Challenge for green inventions promotes not only ideas that win but also those that don't.
Network	Celebrate and strengthen a particular community.	El Pomar Foundation awards recognize and build networks of top-performing Colorado nonprofits.
Participation	Educate and change the behavior of participants through the prize process.	<i>FIRST</i> Robotics' technology competition offers mentorship programs to build the science and engineering skills of young students.
Market stimulation	Emulate market incentives by driving costs down through competition and exposing latent demand.	Ansari X PRIZE launched a \$10 million competition to stimulate the private-spaceflight business.
Point solution	Solve a challenging, well-defined problem that requires innovation.	The online T-shirt store Threadless holds weekly competitions for the best shirt designs, awarding prizes of up to \$10,000.

Mo Ibrahim Foundation, for instance, offers a \$5 million prize for a retired head of state who provided effective leadership in Africa and publishes a quantitative index of African governance. The index builds on the publicity generated by the prize to start a wider debate about the importance of good governance—a debate intended to prompt important changes in public attitudes as much as individual behavior.

In attempting to match the structure of a prize to the problem at hand, the organizations we studied used one of six types of approaches (see sidebar, “The six archetypes”). Some are familiar, such as exemplar prizes that identify excellence in a field or point-solution prizes that reward specific outcomes. Others are less well known but equally effective. Sponsors wishing to strengthen the performance of a particular community, for example, might consider a network prize, like El Pomar Foundation’s Awards for Excellence, which recognize high-performing Colorado nonprofits, build connections among them, and link winners to potential funders. A market stimulation prize can spark innovation in a new or stalled market. Since SpaceShipOne took the Ansari X PRIZE in 2004, public and private investors have spent more than \$1.5 billion to develop this nascent industry.

Large cash awards, however, are not prerequisites for success. Ashoka’s Changemakers competitions, a suite of contests to identify solutions for a variety of social problems, encourage competitors to collaborate by sharing ideas in an online forum before the winners are announced. Purses are intentionally set low, at \$5,000, so that the money at

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stake doesn’t discourage collaboration. The bigger payoff comes when potential funders see strong ideas emerging from the process.

Our research also revealed a critical (and often neglected) area in the development of prizes—measuring their impact and making appropriate changes in response. An organization sponsoring a prize aiming to strengthen a particular community, for example, could periodically examine collaborative projects resulting from the new networks created. But in our survey of prize administrators, only 23 percent of them annually evaluated the impact of their prizes. Sponsors should regularly appraise prizes by measuring their impact and revise them when they fall short of meeting the broader goal, whether it’s generating investments for a winning proposal or sustaining a newly created community of participants.

Ultimately, the ability of prizes to mobilize participants and capital, spread the burden of risk, and set a problem-solving agenda makes them a powerful instrument of change. They offer a valuable form of leverage to sponsors that use them as part of a well-designed strategy. [o](#)

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