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When You've Made Enough to Make a Difference

A strategy for becoming an effective philanthropist

by William Foster and Susan Wolf Ditkoff

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The fortunes that fuel philanthropy come from the likes of Bill Gates, Warren Buffett, and others on a long list of wealthy CEOs, investors, and entrepreneurs. In their respective fields, they have taken risks and enjoyed odds-beating success. They expect nothing less from their giving.

But simply writing checks to organizations that do great work won't create the ambitious changes many philanthropists are looking for. Even the richest individuals and largest foundations don't have enough money to end poverty, reverse climate change, or cure cancer. Their staggering assets are tiny relative to the dollars involved in large, complex systems like education, the environment, and medical research. According to our analysis, donations from institutional foundations and the ultrawealthy account for only 6% of the U.S. nonprofit sector's funding.

To achieve breakthrough changes, donors need a multiplier effect—an approach that delivers many dollars' worth of impact for each dollar invested. In short, they need to develop an investment model. To do so, donors must understand two fundamental areas: the methods of change that breakthrough results require (such as scaling high-impact nonprofit organizations or changing government policy) and how they can best support those efforts—through the roles they play, the resources they devote, and the relationships they develop. Just as for-profit investors need to be clear about how they can help a

venture turn a promising idea into a thriving business, investors in social issues must be clear about how they can contribute to large-scale change.

Sadly, the "money-plus" ideal is often elusive. Our work with nonprofit leaders reveals a raft of valid complaints about their philanthropic donors—who, for example, impose (usually unwittingly) significant costs of capital on their grantees. Some of these result from burdensome application and reporting requirements—waste that is widely acknowledged but persists nonetheless. Other costs are hidden, such as those resulting from the inability of donors to help with tough organizational challenges, their excessive involvement in program design, and pressure from them to develop off-mission programs. Philanthropists rarely hear this feedback directly (for obvious reasons), but it is an open secret.

Why the dysfunction? Donors often fall in love with a program model (say, charter schools) that they believe will deliver the results they want to see in the world (ensuring that all kids graduate from high school ready for college). They don't pay nearly enough attention to defining their investment model. As a result, they often add little value to their grantees, which imposes a high cost of capital. It's a scenario as hopeless as a venture capital firm's spending its time cocreating a compound with a biotech investee but being unable to help it navigate FDA approval, hire a sales force, raise the next round of funding, or negotiate with a pharmaceutical partner.

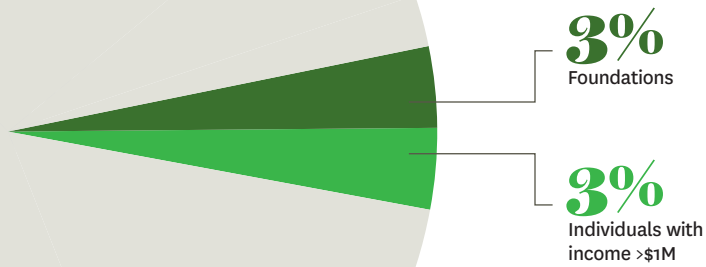
Effective philanthropists merge their program-model perspectives and their understanding of the avenues of change—a focus that informs the grantees they select and the resources they provide. For example, the foundation of conservative businessman John M. Olin supported a variety of causes in its early days, from conservation to museums. But in the wake of the political events of the 1960s, Olin became concerned about the future of free enterprise in the United States. Too few people, he thought, understood the principles of limited government and individual freedoms. Olin believed that powerful, well-researched ideas—especially those in law and economics—could have a profound long-term effect on social policies. Instead of giving to the general funds of universities, which he viewed as hostile to conservative ideals, he narrowed his focus and began supporting fledgling legal associations and law schools (the Federalist Society, for instance, and the law and economics movement at the University of Chicago). He funded conservative think tanks engaged in scholarly and legal advocacy (the Heritage Foundation, the American Enterprise Institute, and the Manhattan Institute). And he supported an array of conservative scholars who were on the cusp of true stardom, among them Allan Bloom, Bill Bennett, and Milton Friedman.

The Olin Foundation—which disbanded in 2005—could have supported many other conservative causes, and it easily could have micromanaged grantees' agendas. It did not. With an endowment that never exceeded $118 million and a handful of staffers, it is widely recognized as having done more than any other entity in the last decades of the twentieth century to establish and institutionalize the conservative movement in the United States.

Like Olin, philanthropists can achieve a money-plus effect by first choosing the methods of change that best suit their objectives and then aligning their activities with their approach. In addition to exploring those two components of a sound investment model, we will share examples of donors that have built strong models to guide their donations and multiply their impact.

What Philanthropists Contribute to Nonprofits

Contributions from individuals and foundations make up only 6% of the U.S. nonprofit sector's revenues—not enough to achieve the large-scale changes that donors are hoping for. Philanthropists need to find ways to multiply the impact of the money they contribute.



Determine the Methods of Change

There are many ways to create large-scale change. What's important is to match the method to the goal. A donor interested in increasing the use of designated

Idea in Brief

Entrepreneurs, business leaders, and celebrities have become extraordinarily ambitious in their efforts to help solve the world's toughest problems. But writing checks doesn't accomplish much. Philanthropists need an investment model to guide their donations and multiply the impact of every dollar.

To develop a strong investment model, philanthropists must first decide what method of change best suits their goal: building a great nonprofit, influencing public opinion and government policy, or funding research. They then must decide what role to play: giving their own money, persuading others to donate, or raising awareness.

Successful philanthropists learn that making a difference requires self-discipline, planning, a focus on results, and the willingness to learn from experience.

drivers in the United States needs a different game plan than one interested in increasing the number of sustainable fisheries worldwide. The former calls for changing public norms of acceptable behavior and supporting legislation about drunk driving. The latter requires influencing a complex configuration of global supply chains. In determining which approach best suits their goals, philanthropists should consider four broad categories:

Build great nonprofit organizations. Many problems require nonprofits that can deliver services efficiently and effectively to a meaningful number of needy individuals—particularly in cases where government can't fit the bill on its own (international development, for instance, or foster care). Savvy donors recognize when and how a nonprofit needs to grow and can assist in that process. A handful have focused on helping direct-service nonprofits build their capacity and capabilities—among them, the Silicon Valley–based Draper Richards Foundation.

Built by successful venture capitalists Bill Draper and Robin Richards Donohoe, Draper Richards is a lean funder (for many years, it employed just two staffers) that follows an early-stage venture-capital model: It identifies and supports promising social entrepreneurs across a variety of fields, including education and global development. In a sharp break from philanthropic norms, Draper Richards does not have internally developed perspectives on the best programs for solving particular problems. Instead, it focuses on identifying nonprofit leaders with the greatest potential to create large-scale change. The nonprofits it funds must demonstrate four things: a great leader, a game-changing idea, programs that have been effective in the field, and sustainable operations.

The foundation also looks for nonprofits that have achieved (or can be helped to achieve) excellence in a core set of organizational activities: developing outstanding senior leadership and management practices, building a strong board, identifying and cultivating emerging talent within the organization, managing time and allocating resources effectively, building early-stage measurement systems, and finding follow-on funding. Although grantees report that excellent industry conferences are available on particular topics (such as agriculture or literacy), they are eager for coaching on the challenges of growth.

Draper Richards asks grantees to develop milestones and makes future funding contingent on meeting them. (On a few occasions, an organization's lack of progress has resulted in the termination of funding.) Over the course of a three-year relationship, a grantee's annual budget grows, on average, from $160,000 to $1.3 million. By the time

Savvy donors recognize when and how a nonprofit needs to grow and can assist in that process.

ventures graduate from the Draper Richards portfolio, they usually have a strong management team and measurement system and an ability to operate in multiple locations. They've moved from a promising idea to a promising organization, ready for the next round of funding.

Change public will and government. Some problems are best addressed by shaping public beliefs and norms—public education campaigns that expose the risks of smoking or promote the use of designated drivers, for example. Other problems call for improved government policies—such as those that create affordable housing. Nonprofits tackling challenges like these need philanthropic donors with deep expertise in government, policy making, and social media.

Consider the Open Society Foundations (OSF), established by financier and longtime philanthropist George Soros. Soros quickly recognized that the recent economic crisis would be especially devastating to America's most vulnerable people. In response, he created the Special Fund for Poverty Alleviation to provide economic relief to people in need of basic services like food and shelter while supporting policy decisions that could assist them. When a $5 billion federal stimulus package required individual states to put up matching dollars to receive federal monies, the Special Fund contributed $35 million in behalf of New York State. OSF's small staff and advisers then used their expertise and relationships to navigate a complex set of government agencies and unlock federal dollars. As a result, Soros's gift leveraged an additional $140 million for the state from the Temporary Assistance for Needy Families emergency contingency fund—a four-to-one match. This encouraged government to continue programs for those who most urgently needed assistance.

Michael J. Fox has brought much more than money to his efforts to cure Parkinson's disease.

Establish intermediary organizations. Many issues, such as environmentally sustainable agriculture and green energy, involve diverse actors: consumers, government, retailers, and suppliers. Change in such areas may therefore require influencing the actions of multiple organizations, over a long period of time, in a continually shifting environment. An individual donor or foundation officer is unlikely to have the time or range of skills for this and so should consider supporting or establishing an intermediary organization. The James Irvine Foundation's approach to post-high-school education provides an example.

In California, about one-third of students drop out of high school; another third graduate unprepared for work or college. After much research and evaluation, the foundation—established during the Great Depression by California agriculture expert and businessman James Irvine—identified as a possible solution the Linked Learning approach (formerly known as "multiple pathways"), which aims to develop curricula around industry themes (such as engineering and biomedicine), thereby providing students with technical skills and real-world experience in personally meaningful areas. However, the foundation understood that spreading Linked Learning—gaining support from parents and students across the state—would be a long-term and complex task.

So in 2006 the foundation created ConnectEd: The California Center for College and Career. With a staff of 20 and offices in San Francisco and Los Angeles, ConnectEd leads demonstration projects, offering coaching and funding to 10 California school districts; promotes collaboration through tools and

training that it distributes and implements in the school districts; advises policy makers; and builds awareness through publications, websites, videos, and conferences. Over time, ConnectEd has built a coalition of more than 60 organizations (from education, labor, and industry) to promote this approach to improving educational outcomes.

Research and develop solutions. Sometimes the problem is the lack of a breakthrough solution: Think of a new drug that cures a disease or a new technology that collects solar energy with greater efficiency. In this case, the key to philanthropic success is helping to break down barriers and rivalries and keeping a clear focus on the quickest and most efficient route from research to breakthrough.

The Michael J. Fox Foundation (MJFF) is a nonprofit dedicated to finding a cure for Parkinson's disease. The foundation invests nearly $50 million per year toward this cause, but it knows that is not enough to develop a cure. So MJFF's investment model focuses on influencing the entire research community to improve its performance, which not only brings scientists closer to a cure but also lowers the investment risk for other groups interested in Parkinson's drug development. MJFF wants to break the culture of academic secrecy, which it believes limits the pace of scientific advances. To do this, it has assembled a blue-chip scientific advisory panel; a team of in-house scientists with the technical savvy to vet ideas and ask tough investment questions; a council that represents the voice of the beneficiaries in the priority-setting process; and an executive team with deep strategic-planning expertise. Guided by the executive team, these groups have developed a high-level map of potential pathways to a cure and a detailed assessment of their likelihood of success. As a result, MJFF's research grants are carefully targeted, with each new one informed by the work being conducted across the entire field. With no corporate profits or academic prestige at stake, MJFF is well placed to assemble a fascinating array of players. The National Institutes of Health, pharmaceutical companies, venture capitalists, and other entities recognize the unique value the foundation adds and increasingly consult it as they consider investments.

Align Activities

Once philanthropists are clear about the methods that best suit their goals, they must organize their activities accordingly. That means coordinating the *role* they'll play, the *human resources* they'll call upon, and the *relationships* that will support their efforts. We present these three factors sequentially here, but in practice they're interrelated.

Defining the right role. The best role matches the donor's capabilities with what's needed to achieve results. The most obvious role involves the awarding of funds: Should they be spread across many grantees or concentrated on a few? Should they be put toward establishing a new organization or strengthening an existing one? Should they be traditional grants or leveraged balance sheets? The answers to those questions can't be driven by personal preferences alone; they must be informed by what it will take to create change.

Other roles can be nonfinancial, drawing on philanthropists' personal skills and networks. Michael J. Fox, for instance, has brought much more than money to his cause. He has leveraged his public persona and credibility through high-profile television appearances (he was on *The Daily Show* in 2009) and in various forms of social media. Other major donors to MJFF also play crucial nonfinancial roles. Andy Grove, the former chief of Intel, brings his engineering background to discussions about how potential therapeutics can cross the blood–brain barrier, a particularly thorny problem.

A cautionary note: Philanthropists playing nonfinancial roles should stick to areas where they bring unique skills or relationships and not try to claim expertise they do not have. Positive interventions can include providing connections to a nonprofit or initiative, convening key stakeholders and experts, attracting support from government and corporate leaders, and providing strategic or tactical support (such as offering advice about organizational design or providing training to the sales force).

To determine the most appropriate financial and nonfinancial interventions, philanthropists should consider their abilities relative to those of other investors, intermediaries, the government, and grantees. And, of course, they must listen carefully to beneficiaries and attend to their needs.

Assembling the right human resources. Often a donor is not well positioned to play the role he or she wants to play and thus must build, buy, or borrow the capacity to do so. Some philanthropists build talent within their grantee organizations; others hire staffs to carry out their grant-making operations. Still others rely on contractors or other borrowed talent.

A cautionary note: Philanthropists should stick to areas where they bring unique skills. They should not claim expertise they don't have.

MJFF chose the *build* route, using celebrity, strategic planning, and scientific expertise to bring together a broad group of stakeholders in a new way. Irvine chose to *buy* expertise by investing in an intermediary rather than foundation staff. To develop its Special Fund, OSF had a similar need for experienced talent but had to act quickly and didn't have the time to hire a large staff. So it *borrowed* expertise by creating a unique executive-on-loan partnership with two leading antipoverty funders, the Annie E. Casey and Charles Stewart Mott Foundations. With just one full-time staffer, OSF relied on loaned executives, volunteer expert advisers, and experienced short-term consultants to inform its work and invest nimbly and expertly across a range of opportunities.

Forging the right relationships. Healthy, productive relationships between donors and grantees are essential to money-plus philanthropy. But the inherent power dynamics create challenges. As we mentioned earlier, donors rarely get honest feedback from grantees about what adds value and what just creates costs. A strong investment model can increase the odds of success for donors—by engendering honest conversations when they push for off-mission programs and promoting shared expectations about their contributions and grantees' needs. It's important to ensure that the requirements grantees must fulfill do not eclipse the value of the benefits they'll receive. For instance, OSF keeps grantees' paperwork low relative to the multimillion-dollar awards it makes; and Irvine helped ConnectEd build the 60-organization coalition because it realized that Linked Learning's overall success depended on help from others. In contrast, Draper Richards requires a lot of time and effort from grantees, but the staff provides commensurate value.

The reality is that the power dynamics can be mitigated but not eliminated. Donors must be hypervigilant about respecting grantees. This does not mean that philanthropists should get rid of all burdens. After all, many good philanthropic practices—such as thoughtful performance assessment—create costs. The higher the benefit, the more justified any burdens become. But when donors don't understand what their grantees need and the costs of capital they're imposing, the stage is set for trouble.

"Rock—you I can cover. Scissors—you're too big a risk."

CARTOON: MARTIN J. BUCELLA

SOCIETY IS blessed with ambitious philanthropists and promising ideas. To address the world's most pressing problems, donors must ask themselves if they truly understand what it takes to make change happen, beyond just a great program or idea, and if so, how they can position themselves—through their role, resources, and relationships—to support that change. Without a fully integrated picture, philanthropists can't effectively communicate and coordinate with other donors, collaborate with grantees and beneficiaries, and improve their decisions. They become vulnerable to wishful thinking and unrealistic expectations. Developing a clear investment model does not have to be complicated or expensive, just deliberate—and the model evolves as philanthropists learn from their experiences. No external force will make donors do this—only self-discipline and a relentless drive for results.

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