



JON KRAUSE, FOR THE CHRONICLE

# How to Rebuild Philanthropy's Ability to Change the World

## OPINION

**IRWIN STOOLMACHER**  
**We need to pare down the glut of charities. 29**

**A** FEW WEEKS AGO, my family took a boat tour of the architecture in downtown Chicago. Throughout the tour, the guide referred to the undergirdings — the underlying frame of the majestic buildings, not just the visible architecture — as key to the quality of the overall structures.

In philanthropy today, a lot of good “architectural” work is under way to rethink giving approaches. But we still face a real barrier to progress in the underlying structure of our sector’s work. If we want to produce more of the change our resources are capable of achieving, we need to reconstruct our underlying practices; it’s less about style and more about structure.

The girders that underlie our philanthropic architecture and the current condition of them is far weaker than anything on the surface, yet people in philanthropy spend more time dealing with the surface than what’s damaging our basic foundations. We have all made mistakes in our own giving, but we also all know what’s key to producing real change. Here’s what donors and grant makers need to do:

### **Make every grant unrestricted.**

Most foundations make their contributions far too inflexible by placing requirements on the money they provide, which may even include prescribing the purpose or the means to achieving the end.

By **PAUL SHOEMAKER**

*Founder of Social Venture Partners International*

Donors have every right to limit their giving to the groups whose goals they hope to mutually achieve. But once the money is given, let the nonprofit decide how best to achieve the end goal. Unrestricted does not mean unaccountable.

The current situation frequently leads to exactly the opposite of what a grant

maker might expect.

Leaders of nonprofits, including those everyone would consider a success, often tell me they wish they were half as big because then they would be twice as effective.

They received large, restricted grants to expand one part of the organization, with a percentage “overhead” limit, and in subsequent years conditions changed. They needed to switch gears, but were hemmed in by their restricted funds. They also had to cut from smaller programs to cover the costs of the expansion. In the end, that lessened the overall impact and caused a rupture as the growing part of the organization seemed to be stomping on smaller programs.

A corporate CEO would find it ludicrous to try building a company if her multiple sources of revenue sources were constrained in so many unique, unconnected ways by being tied to specific, isolated spending purposes. (Sadly, she is probably one of those donors who, when giving money, places restrictions on it.)

Donors are not the only ones who need to change, of course. As Antony Bugg-Levine, chief executive of Non-profit Finance Fund, reminded me, “Nonprofit leaders

also have to develop the knowledge and capabilities to understand their full cost and financial structure, which is a condition to being able to have a different partnership” with a funder.

But we also have to understand the more insidious consequences of today’s approach. Here’s what one respected nonprofit leader told me privately: “Restricted funding may produce corrosion of ethics within otherwise honest organizations. When you need to pivot, but you can’t because you have to hold true to the letter of the grant, or when you have to spend out all the funds because you are at risk of losing subsequent grants — crazy, but true — it can force organizations to cut corners, allow higher costs into line items, which can ultimately amount to cracks in the ethical foundation of an NGO.”

Too often, the reason grants are restricted is because boards insist on it. This can’t be the choke point. All of us who work with foundations have to show board members that restricted funds are having a debilitating effect on their philanthropy’s ability to achieve its mission.

Some foundations and nonprofits are overcoming this challenge.

Communities In Schools is doing better at achieving its mission by simply not accepting money with too many strings. The Heron Foundation puts no restrictions on its grants. At Social Venture Partners Seattle, part of the network of donors I spent 17 years building and overseeing, we agreed on common goals for achieving social outcomes and building an organization’s capacity to achieve its mission, but nothing more.

Most notable, the nation’s second-largest foundation, Ford, announced in June a deep commitment to providing more general operating support to its grantees, pledging \$1 billion in that form over the next five years.

### **Commit to the long term.**

In most cases in which philanthropy has helped change society, it took at least 10 years of investment. However, if we look at grants of \$10,000 or more awarded by the 1,000 largest U.S. foundations, only one-third (by dollars or number) are “continuing,” that is, part of a multiyear commitment. As a colleague once told me, “We want to change life-cycle issues with a grant-cycle mentality.”

To take just one issue, look at how long it took to make same-sex marriage legal.

In 2004, Massachusetts became the first state to adopt marriage equality; the backlash was extraordinary. In reaction, a group of grant makers and activists devised a shared game plan that involved a commitment of long-term support from donors and a pledge to push the same message nationwide. Subsequently, at least 35 states enacted marriage equality. Today, of course, it’s the law of the land.

It’s not wrong for a nonprofit to have to raise funds, but in the business world, when an entrepreneur’s start-up begins to have a positive cash flow, more capital follows. Nonprofits, however, are forever in fundraising mode, in part because grant makers and donors commit for such short periods and in such a fragmented approach.

I can’t count how many times I’ve heard grant makers or philanthropists say they only make a grant to an organization one time or for X number of years because they don’t want a nonprofit to become “dependent.” But if all donors say that, then we are collectively making them dependent. Nordstrom’s works very hard to retain its most loyal customers year after year and is highly admired for that “dependency.” That same spirit should apply in philanthropy.

The Robin Hood Foundation has supported some organizations for two decades and will continue to if an organization can prove it is helping to end poverty in New York City.

We need to stop thinking of ourselves solely as grant makers and more as problems solvers. There is some-

thing deeply gratifying, if less interesting in the short term, that comes from committing for the long term and making a real dent in a social challenge.

### **Collaborate with other grant makers as the rule, not the exception.**

We’ve made progress, but grant makers must still think and act much more collectively. To be sure, there are few inherent incentives to do so. We talk about the need for nonprofits to work together more and consider mergers. But we almost never suggest that donors or grant makers merge their philanthropic efforts, although two of the biggest in the world did just that, Warren Buffett and Bill Gates.

Nonprofits can, indeed, work better together, but whatever they aspire to achieve will ultimately succeed only if grant makers agree to align their interests and assume shared alignment as well. As Ed Skloot, former chief executive at Surdna Foundation, told me, “The biggest barrier is that philanthropy is still a solo, fragmented, ego-driven, often rigid way to help communities.”

At Social Venture Partners, we’ve helped build the Statewide Capacity Collaborative, made up of nine grant makers in Washington working to help nonprofits improve their management and expand advocacy. The benefits have gone well beyond funds provided to nonprofits:

- We had to align our goals first, before we asked nonprofits to apply.
- The pooled fund forced us to discuss a range of issues we wouldn’t have otherwise considered.
- We created one application and required grantees to provide us with just one concise progress report.

The Mary Reynolds Babcock Foundation has adopted this collaborative-from-the-git-go approach for years.

Sustained relationships among donors have to become a regular practice — the rule, not the isolated exception.

### **Build stronger boards.**

The biggest vulnerability at nonprofits and foundations is weak boards. Too often, board members do not understand their roles; even when they do, they may not carry out those roles correctly and effectively.

It’s easy to figure out why people don’t understand their roles. Even the term “board of directors” is ill-framed. “Board” connotes overseer, while “director” suggests they spend their time directing, but both of those ideas are largely wrong. Boards are stewards of a mission; they have fiduciary responsibilities and exist to find great leaders and to think about the future, the risks, the what-ifs. People “serve” on boards.

This probably affects foundation and nonprofit boards. Grant-making boards, in particular, are inherently insular. There is little built-in accountability. To have a great philanthropic board, we must impose excellence upon ourselves. We also have to spend money and time investing in efforts to help nonprofits bolster their boards, and make it clear this is a high priority.

We must also look at why people join boards. Some people are recruited because they have the potential to give big; that may be good, but it says nothing about how well they will govern. Some individuals join to bolster their community image. Others join because a friend twisted their arm. All of these are about the person, not the mission.

The YMCA does a great job of getting board members from the communities it serves, and the board of the National Council of LaRaza works closely with the chief executive to ensure they are all working together to advance strong policies and practices.

If we don’t force ourselves to adopt, and invest in, better board practices, we’ll continue to feel good inside the

*Continued on Page 28*

**Philanthropy is a solo, fragmented, ego-driven, often rigid way to help communities.**

Continued from Page 27

board room but disconnected from the reality of what we are not accomplishing outside.

### Listen much more closely to nonprofits.

Companies have to listen to customers, and governments have to listen to voters. J.D. Power fundamentally changed the auto industry by bringing consumer feedback out in the open, setting the stage for today's feedback loops like Yelp.

In the nonprofit world, the customer — that is, the beneficiary — is the person who benefits from the services of a foundation or organization (but doesn't usually pay). And far too often, foundations are very removed from the voice of the customer.

One of the most dramatic examples involves Newark's public schools. In 2009, the Facebook co-founder Mark Zuckerberg made one of his first big philanthropic grants to Newark's schools. There has been spotty academic progress, and many parents have felt the reforms were imposed on them, not developed with their cooperation.

The key flaw was not a lack of good intentions by Mr. Zuckerberg or Cory Booker, the former mayor of Newark. It was the lack of connection to and engagement with the ultimate customer: the community. In the long run, philanthropists can't tell others how to fix their communities, and solutions to social problems do not stick unless all people involved are truly at the table.

Foundations can take many approaches to changing today's situation. They can give their grantees support to develop ways to get better feedback from the people they serve.

But we should also find authentic opportunities, as grant makers, to personally dig in with the communities we want to help so we can work together to create

programs and services. This is where the need for grant makers to demonstrate humility and the ability to listen must come to the fore.

Mary Jean Ryan, who heads the Road Map Project in Washington State's South King County, an effort that has made big strides in pulling together nonprofits, foundations, and government to improve education, says simply: "People involved must have the trust of the communities in which they are working. Trust is earned by actions, sincere listening. Trust is fundamental."

These five philanthropic practices would require grant makers to work "outside in." It would require them to be driven by how social change truly happens, instead of what can be a foundation's inside-out approach in which it is assumed that by telling grantees how to use their money, change will come about. This skewed view of the world is the single biggest reason philanthropy is not making the difference it is capable of achieving.

None of these changes are overly complex, but each requires breaking with longstanding traditions. We will have to self-impose the messy — and ego-bruising — process of change if we truly expect our resources to transform society. Grant makers have become gradually more open to change in the last five years, but we have so much farther to go.

We have not evolved as much as we need to because, frankly, we don't have to. Philanthropy is almost completely unregulated and accountable to almost no one, which leads to a very insular world view. We have to reconstruct philanthropy, from the outside-in, and fundamentally change our underlying, outdated practices if we expect to transform our communities and ecosystems. ■

*Paul Shoemaker just stepped down as founding president of Social Venture Partners International. His new book, "Can't Not Do," was published last month by Wiley.*



Fatima, enjoying clean running water in her home village

## There are no bounds to your impact.

Subscribe to *The Chronicle of Philanthropy* today to secure a brighter future for your organization and the world.

### Get Unlimited Access To:

- Up-to-date news, trend analysis, and fundraising strategies from industry experts.
- Essential fundraising data.
- Comprehensive listing of available grants.
- Extensive job database and career advice.

THE CHRONICLE OF  
**PHILANTHROPY.**

Subscribe today:

[Philanthropy.com/Water](http://Philanthropy.com/Water)

Want your cause to be featured in an ad like this?  
Send your successes to: [solutions@chronicle.com](mailto:solutions@chronicle.com)