FROM BEST PRACTICES TO NEXT PRACTICES

In search of long-term and sustained philanthropic impact

By George Thorn

As philanthropic giving evolves, becoming more focused on effectiveness, donor practices must change, too, moving beyond established guidelines and procedures.

This past decade has seen much public attention on philanthropy due, in part, to significant gifts by some well-known philanthropists — such as Warren Buffett — and some notable scandals. Even after the most significant economic downturn since the Great Depression, the U.S. “is still home to the most generous people who care and remain committed to supporting nonprofit organizations and the philanthropic world.” In fact, in 2012, giving in the U.S. was estimated at $316 billion.¹

While challenges over the years caused the field to focus on practices to improve the efficiency and effectiveness of philanthropy, current challenges require an even deeper demand of philanthropy’s ability to address the most pressing problems of our time, amid smaller endowment values — which have decreased by an average of almost a third² — and continued economic uncertainty, government budget reductions and an increase in demand for services. Given these concomitant forces, it has been said that we are entering into a “new normal” that will force all of society to “manage more aggressively against scarcity,” including philanthropy.³

This article addresses key practices that foundations would do well to focus on and incorporate in order to increase impact in the context of today’s and the future’s challenges.

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AN AMERICAN TRADITION

Philanthropy has its roots in religious beliefs, and in values and principles of civic participation. Throughout history, civilizations have used personal resources to assist those who were less fortunate. Philosophies supporting civic participation and shared approaches to problem solving were readily embraced by early settlers of the New World — government was distant and weak, which forced settlers to join together and help each other to build community and support the public good. In 1630, John Winthrop preached “A Model of Christian Charity” to Puritans bound for New England, emphasizing the obligation of the rich to care for the poor, and the obligation of the poor to do the best they could.4

John Harvard’s gift to the institution that now bears his name is considered one of the earliest philanthropic gifts in America. Harvard bequeathed £779, half of his estate, and his library of around 400 volumes to the new college in Cambridge, Massachusetts, upon his death in 1638. In 1639, the school was renamed Harvard College in honor of its first benefactor.

Fast-forward 150 years to 1789 when Benjamin Franklin set up a charitable fund with “a thousand pounds of sterling” (about $4,400 at the time) to benefit worthy young Philadelphia apprentices and to support worthy projects in Boston. The fund, a precursor to the current-day private foundation, terminated 200 years later, awarding over $2 million to charity.

In addition to wealthy individuals, persons with relatively little worth also shared their resources with others. In 1887, Denver religious leaders founded the Charity Organizations Society, the first United Way organization, which planned and coordinated local services and conducted a single fundraising campaign for 22 agencies. The first campaign raised $21,700. However, it was not until the Industrial Revolution, when many Americans amassed great wealth, that organized philanthropy had a significant presence. In 1911, Andrew Carnegie set aside $350 million in a fund to benefit charity; in 1913, John D. Rockefeller set aside $580 million, creating the first private foundation. These foundations, which were created before personal income tax deductions for charitable gifts were allowed in 1921, are still at the forefront of philanthropy.

THE NEW CURRENT LANDSCAPE

Over the past 100 years, since the creation of the first foundation, philanthropy has flourished. The practice of philanthropy is now referred to as a field, with think tanks and schools dedicated to improving its practice. The total number of foundations in the United States has grown to over 90,000, with a total market value of approximately $570 billion.5 Foundation grantmaking in 2012 climbed to an estimated $46 billion. In addition, individuals continue to give even in the midst of the current economic uncertainty. In 2012, individuals gave an estimated $229 billion, up 3.9% from 2011. Philanthropy, however, continues to struggle to define its relevance and course for the future under the weight of still-limited resources and astonishing need. It has been said that “an intimidating range of forces — globalization, shifting sectoral roles, economic crisis, and ubiquitous connective technologies, to name just a few — are changing both what philanthropy is called upon to do and how donors and foundations will accomplish their work in the future.” 6

THE EMERGENCE OF ‘BEST PRACTICE’

Grantmaking best practices emerged as foundation leaders and philanthropists grappled with questions concerning whether their giving was actually contributing to the common good. It was recognized in the field that more effective philanthropy is built upon a base of well-crafted practices that guide overall giving. Tierney and Fleishman state in Give Smart that great philanthropy is distinguished not by the size of a grant or gift, but by what it accomplishes.7

How a foundation operates truly is important. Although there are some basic rules and regulations that a private foundation must follow to maintain its charitable status, the most admired foundations operate above this basic compliance. These foundations are thoughtful, transparent, accountable and self-policing—they strive to produce a measurable and lasting impact through their grantmaking.

It is now accepted fairly widely in the field of philanthropy that some basic core competencies and ethical standards of behavior are fundamental to the practice of good grantmaking and critical to foundations’ operational excellence. All foundations, regardless of size, should have a clearly articulated mission, goals and grantmaking procedures. To both guide the board
and inform the public, the mission statement should articulate the fundamental purpose of the foundation. The foundation’s mission should be supported by grantmaking procedures that clearly define the grantmaking process, including receiving, reviewing and deliberating on grant applications. Key to this process is having a strong governing body in place that addresses fiduciary responsibility, investment oversight and grantmaking stewardship.

Every foundation should understand and abide by the laws and regulations governing the field. When necessary, or when questions arise, legal, accounting and investment advice should be sought to guide the actions of the board and foundation staff and to ensure that the foundation fulfills both the letter and the spirit of the law. In addition, it is critical to complete and file all required government forms in a timely manner.

Foundations are accountable to the public and should act with integrity. Public accountability is fundamental to best practice. There are many stakeholders in this equation—the general public, national and local governmental agencies, foundation grantees, as well as the original donor. It is critical that foundations act with honesty and transparency in all aspects of their work and share appropriate information with the public on a timely basis. Further, foundations must have the proper safeguards in place to avoid real and perceived conflicts.

Foundations should be knowledgeable and informed about the needs of society, and should be alert and responsive as needs change and evolve. Foundation staff should take advantage of opportunities to educate themselves and remain current in the areas outlined in their mission, developments in the field, and needs within the nonprofit sector. Also, every foundation should value and affirm diversity. To that end, it is important for foundations to include opinions and experiences from the broadest possible cross section of stakeholders to guide their work. The community served by the foundation should be taken into consideration when hiring staff members, nominating prospective board members and determining how best to achieve impact.

It is important for foundations to have open and respectful relationships with nonprofit organizations, grantees and colleagues in philanthropy. These relationships build trust and allow important knowledge sharing, which can help to maximize impact and further philanthropy.

### Next Practices

Current circumstances and challenges have caused philanthropy’s thought leaders to shift focus from how to achieve grantmaking “best practices,” that generally focus on the efficiency and effectiveness of foundations, to conversations about philanthropy’s “next practices,” a phrase coined to present a new road map for the field. It is now being articulated that for philanthropy to have a major impact on the many issues that are facing society today and in the future, foundations and grantmakers are going to have to do more than just adhere to grantmaking best practices. If best practices were to articulate a common set of principles and behaviors for all foundations to follow, then next practices challenge philanthropy to go further by marrying best practices with emerging practices that seek to help grantors think more deeply about how foundation dollars can have a greater and more long-lasting impact on the problems confronting society.

### Take a Systems Approach

Grantmakers will have to think more broadly and understand that their work is part of a larger system of actions and reactions if philanthropy is to have the impact that is needed. Although foundations are independent organizations and can act without regard to others, their actions are interconnected with the actions of others. It is important to understand that effective grantmaking does not happen in a vacuum. In order to identify the best possible solutions, it’s crucial to clearly define the problem or need that is being addressed. This is done by truly engaging others and learning from a wide variety of stakeholders to develop a shared understanding of the problem and potential solutions. Rarely are solutions found by going it alone.

Although this practice is important for foundations regardless of size, it is particularly important for small foundations because it is very easy to “fly solo.” Philanthropy is personal, and givers make decisions for a variety of personal reasons. This, in and of itself, is not a problem, but it is necessary that foundations see their work as only one piece of the whole puzzle in order to get the best results.

How does a foundation take a systems approach? For starters, communicate with a broad sample of nonprofit organizations that are on the ground, doing the work. This can include organizations that are current or potential grantees, as well as those that are not. Consult knowledgeable stakeholders, including other funders, academic institutions, public-sector partners and businesses, to see how they define and are addressing similar problems. When communicating with others, talk to as many people from different sectors and perspectives as possible and ask lots of questions, but in general, listen more and talk less.
EMBRACE A CULTURE OF LEARNING

Philanthropy is not ideally set up for learning and the sharing of information. Because foundations are inherently independent, learning often occurs in isolation and is largely based on secondhand information from grantees. If philanthropy is to achieve the results needed, foundations need to embrace a culture of learning.

Learning organizations have systems, mechanisms and processes in place that are used to continually enhance their capabilities and achieve sustainable objectives. Learning organizations:

• They are adaptive to changing circumstances in their external environment.
• They continually improve their ability to adapt to change.
• They value collective as well as individual learning.
• They develop systems to get accurate and timely feedback.
• They use the results of feedback and learning to achieve better results.
• They tell everyone who will listen about what they learned.

INVEST IN SMART RISKS

Because of their independence, foundations have the valuable ability to experiment and take risks. Unlike the government, which is accountable to voters, or businesses, which are accountable to customers and shareholders, a foundation is accountable to itself and to the government. This internal accountability provides foundations with the freedom and flexibility to step out of the box and to try new things more readily. Philanthropy, in many ways, represents “society’s risk capital,” and if foundations are going to have a greater impact on the complex problems of today and of the future, taking some risks and experimenting with new approaches will be necessary.

The most successful foundations will use a portion of their resources to support innovative ventures that have the potential to be transformative. Smart risks in grantmaking can include providing seed money to launch a creative idea or trying an approach that may have already failed in a different environment or under different circumstances. Smart risks are those that have been thoroughly researched and are based on broad experience, not just internal judgment. “The goal should be not to avoid making or admitting mistakes but to avoid repeating the same mistake someone else has already made because you didn’t bother to learn.”

USE ALL AVAILABLE INTERNAL RESOURCES

Foundations, with a wealth of internal resources at their disposal, should use all of them to advance their mission and not just focus on the grant itself. What are some of the resources that foundations have? Many foundations have significant knowledge capital that comes from professional staff and boards or trustees with varied skills and experiences. The voices of these individuals can add significant value to conversations as foundations try to find more effective solutions to complex problems.

In addition, many foundations have considerable influence and can use their “bully pulpit” to attract attention to problems and marshal the support of others. This can be done by supporting public service announcements or by convening stakeholders and knowledge brokers to promote dialogue and develop solutions to problems. It also stands to reason that as a foundation, even one that may not be very influential, begins to use its voice and experience success, a virtuous cycle is created, leading to more influence and more favorable results.

Foundations should also consider using resources such as program-related investments (PRIs), mission-related investments (MRIs), loans, low-cost financing and working capital, when appropriate, to help drive results.

LEVERAGE ADDITIONAL EXTERNAL RESOURCES

The most successful funders will leverage a variety of external resources to expand support for their most important ideas and projects, thereby getting more “bang for their buck.” Not even the largest foundation in the world has enough money to solve the world’s most pressing problems on its own, so foundations should use their influence and connections to leverage additional resources. Other resources can include public-sector funding, capital from businesses, knowledge capital from academic institutions, and grant dollars from other foundations and individual donors.
FIND NEW AND INNOVATIVE WAYS TO COLLABORATE

Given the limited resources available and the complexity of the problems faced, foundations will have to collaborate more, and in new and innovative ways. This may mean that funders will have to give up, or at least share, control and recognition for solving problems with partners. Warren Buffett provided a good example of collaboration when he shocked the philanthropic sector in 2006 by making a $31 billion gift to the Gates Foundation, to be used during the lifetime of Bill and Melinda Gates, to accelerate and deepen their efforts on the tough issues they are working to solve. Buffett could have easily created his own private foundation that would wear his name. Instead, he chose to combine his resources with those of trusted colleagues to achieve greater social impact. He chose to collaborate in an innovative way, giving up control and the recognition that comes with solving problems on his own.

The challenge will be for donors to find — or be found by — the right partners to help them accomplish their goals. The “right partners” can include other foundations, businesses or corporations, government agencies, or a group of grantees who come together with a commitment to a common agenda to address a specific issue or problem. This has been referred to as “collective impact,” which can lead to broad-scale social change. Some collaborations will occur naturally, while others will take time and work to develop. The foundations that will have the most transformative impact on major social problems will be the ones that recognize the value and importance of partnering.

ADOPT AND PROMOTE THE USE OF NEW AND CUTTING-EDGE TECHNOLOGIES

It is universally agreed upon that technology, and more specifically the Internet, has had a profound impact on how information is communicated and received today. The Internet has opened access to information to ever-widening groups of people, and the use of smartphones and 3G technology has placed this information at our fingertips to be accessed anytime, from just about anywhere. Technology’s impact on philanthropy, however, is not as widely understood, although more and more funders and nonprofit organizations are using Internet and mobile technology in their efforts to create social impact.

There are numerous examples of how technology is being used for social good and to influence change, such as text messages to facilitate giving during the earthquake in Haiti and social media being used to spur people to action during the Egyptian revolution. Foundations are also increasingly using technology, such as through the use of online grant applications and report forms, as well as through innovative websites such as the Foundation Center’s Glasspockets (glasspockets.org), which promotes online transparency and accountability in philanthropy. To be sure, philanthropy and technology are combining at an incredible speed.

As new and innovative technologies are developed and adopted, it’s important for foundations to remember that given severely stretched nonprofit budgets, funding is needed for grantees and other nonprofit partners to invest in these technologies that can assist in achieving programmatic impact, while not jeopardizing their ongoing support for organizational capacity and efficiency. In addition, given the speed at which technology is being developed and upgraded, funding for technology cannot be seen as single or one-time investments, and ongoing education has to be provided for donors and nonprofits alike in order to keep up and reap the maximum benefits. The most successful foundations will also adopt technologies that allow knowledge and information to be collected and shared more quickly and effectively so that others in the field can learn and benefit and achieve their goals without undue burden. The Council on Foundation’s Technology Task Force recommends that a central knowledge management (KM) system be created to serve as a repository of information on lessons learned and best practices, and to provide advice to others in the sector to avoid duplicated efforts. This resource, if it is able to be developed, should provide significant benefit for the field in terms of creating a culture of learning and knowledge.
CONCLUSION

Philanthropy has played a significant role in the U.S. Since the arrival of the first settlers, individuals have used their personal resources to assist others in need. Giving is part of our national culture and fabric. Over the past 100 years, foundations have flourished as a result of the spirit of giving in this country — total assets had grown to more than $600 billion in 2011 — and the institution of philanthropy can easily be considered as one of our most valuable national treasures. Although the field has undergone change in the past 100 years and has become in some ways more professionalized, it is clear that more change is needed if philanthropy is to have the intended impact on current and future social problems that seem intractable. The concept of “next practices” outlines strategies that foundations can embrace to achieve greater impact and preserve the public trust. How each foundation implements the practices depends on a number of variables, among them asset size, staff and board composition, the age of the foundation, its location, and its focus areas. The main point is simply that all foundations must think more broadly about how to achieve their desired outcomes and effectively contribute to the public good.

Some doubt the ability of foundations to change, either because of lack of motivation or because practices are so deeply entrenched. Others believe that some form of outside intervention will be needed, such as from government, for foundations to change significantly. It is possible, however, that the same philanthropic spirit that has motivated so many to create foundations that serve the public good, and the passion that foundation professionals bring to the work, will continue to propel the field forward toward new and bolder practices to achieve greater impact. Let’s hope that the latter is true.

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