

Is Distinguished Philanthropy Still Possible?*

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About 30 years ago, when I was a very young Assistant to the Mayor of New York City I took the only trip of my career that could possibly be called a “junket.” The City was interested in creating a second Spoleto Festival under its founder Gian Carlo Menotti. Ultimately, you know, the festival found a home in Charleston, S.C.

But I was the advance guard of one, and spent a week in Spoleto, ostensibly casing the beautiful Italian town for its cultural riches. I fell in with a group of the world’s greatest artists who met there every year to spend personal time among dear friends. They included Buckminster Fuller, the futurist and inventor, Jerome Robbins, the choreographer, Alice Tully, long-time patron of the Arts, Isamu Noguchi, the sculptor, and several other luminaries, all in their 60s and 70s and some even older.

One starlit night on a hillside overlooking the twinkling lights of town, after most of us had a little too much wine, Bucky Fuller loosened up and started to give a tour of the heavens to about a dozen guests. “Why there’s the Big Dipper and Orion, and the Great Bear, and Andromeda, and ...” etc., etc. After a bit, Alice Tully, from across the length of the table, startled everyone by exclaiming: “Bucky...Bucky...if that’s Orion, that can’t be the Big Dipper, or the Little Dipper or.... You’re all wrong, Bucky!”

Fuller was stopped in his tracks. Everyone who knew him knew he had terrible eyesight. But he was convinced he was right and started to argue firmly, though hesitantly, with his friend Alice. Then he slumped into silence for several minutes. Slowly he looked back up and, crushed, said, “Alice, you’re absolutely right. The last time I really looked at the stars I was in Australia. Everything got turned upside down. I got turned upside down.” Alice nodded knowingly.

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This little story suggests the situation we're all facing today. We can live with the memory of flush times, and even high impact, or face the fact that philanthropy's stars are not aligned today -- and will not be for a long time to come.

Given the national and state financial slide, as well as our own culture and operating styles, making a difference is much harder than ever. In fact, I have serious doubts whether distinguished philanthropy is still possible.

Yet I have no doubt that we must act as if it is. Our efforts have to be focused, determined and smart. There is much to be done, even if the results turn out a little less distinguished than we'd hoped.

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Minnesota has approximately 1,200 foundation and corporate grantmakers, whose assets exceed \$12 billion. In the year 2000 they awarded \$810 million in charitable grants.¹ That's a very respectable sum. In fact, it has more than doubled since 1993. (This mirrors the national pattern, where grantmaking more than doubled between 1996-2000.) Philanthropy and the nonprofit sector have been fast-growth industries for a decade. But the good times are history.

Put it in perspective. If the same amount of giving in Minnesota two years ago was used to cover the state's current budget deficit, it would fill, maybe 1/5th of the gap. One fifth. And that's just the gap -- not the budget. According to the *Minneapolis Star Tribune*² last week, at least \$4 billion needs to be found in the next 2 1/2 years through some mix of expense reduction and revenue enhancement.

We can argue this morning about the angle of the slide, or the degree of difficulty we are in. But we can't escape the fact that the things we care most about, **the economic, civic and ethical health of our people and institutions**, are under great and increasing stress.

Yes, the world is vastly different than the one we knew pre-9/11. But 9/11 is just one of *many* reasons why the country is where it is today. Let's also remember that we are in the middle of a massive overhaul of the social contract that has been in place in this country for the last 50 years.

¹ "Minnesota Grantmaking 2003 Outlook Report," Minnesota Council on Foundations, December 2002.

² "State Budget Deficit to Top \$4.5 Billion," December 4, 2002.

While the economy bumps along, the current and future needs of our fields grow exponentially. Competition for government funding will be increasingly fierce. This is especially true as the current Administration pushes even harder to cut taxes for the super-rich, fuzz the social security gap and, ultimately, shrink the size of government.

But this is **precisely** the time to re-frame what we think and how we operate. Our first task is to clearly see how this new era has upended us. Then, we can find ways to throw our muscle into the places where philanthropy's **very modest power** can have its **very greatest effect**. For let's be clear about our baseline – foundations are Lilliputians in a world of private sector and government Gullivers. But let's not roll over and play dead either. Our power can be used smartly in order to achieve our mission. And yes -- we *do* have power.

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My case is simple: Organized philanthropy plays its game blindfolded and with one arm tied behind its back. We have a large repertoire of unused tools and tactics. We have neglected to create and use our knowledge, our public voice, our financial wealth, our partners and even our high ground. For philanthropy to be distinguished it must unlock and use **all** these resources.

A first step is to break the false connection many of us make between charity and philanthropy. Many of us act as if they're the same thing. They aren't.

Charity is ancient, honorable and important, but it is **not** what we do. It's rooted in Judeo-Christian teachings that call for assisting the poor and the weak. Traditionally, it seeks to provide relief. It's largely focused on individuals and deals with symptoms, not causes. Indeed, it is often reactive and as personal for the giver as it is for the recipient.³

By contrast, philanthropy is what we do -- or should be doing more of. It derives from a Greco-Roman tradition that speaks more to civic obligation and the needs of the community. It is collective and inevitably political. Philanthropy acts

³ For parts of this discussion, see Paul Ylvisaker's speech "The Spirit of Philanthropy and the Soul of Those Who Manage It," in *Conscience and Community: The Legacy of Paul Ylvisaker*, ed. Virginia M. Esposito, Peter Lang, New York, 1999, pp. 340-347; Karl, Barry D. and Katz, Stanley N., "Foundations and Ruling Class Elites," *Daedalus*, Winter 1987, Volume 116, No. 1; and Gregorian, Vartan "President's Essay," Carnegie Corporation 2000 Annual Report, Carnegie Corporation of New York website <www.carnegie.org>.

primarily through institutions, not with individuals. And since institutions carry the DNA of our society, that is where deep or large-scale change can happen.

Both charity and philanthropy have noble histories. They have secure places in our inventory of human goodness. In fact, the charity-philanthropy-government partnership makes our country unique among nations. It has sparked, fueled, and sustained our greatest social movements.

But we no longer have the luxury of assuming that small acts of generosity can meet the needs of today -- or tomorrow. The satisfaction we derive from charity seduces us into thinking that, increment by increment, we will have a large impact on our deepest problems. This is false. We must make the distinction between funding soup kitchens (charity) and figuring out why we need soup kitchens in the first place. Then we can make them unnecessary (philanthropy).

Philanthropy goes after **root causes**. It affects whole systems. Historically, its standard bearers are the Rockefellers (senior and junior), Andrew Carnegie and Julius Rosenwald. These giants had the money and the mindset to dig deep and act boldly. Let me give you two examples:

First, Andrew Carnegie. He saw literacy and education as the keys to advancement. His gifts to more than 1,600 American communities, to build public libraries for all, were made on the condition that **they** provide the land and the books. Here was an early case of the effective use of challenge grants.

Second, Julius Rosenwald, founder of Sears-Roebuck. In the early 1900s he fought racism in the American south. He relentlessly built rural schools. He demanded the land for school buildings had to be deeded by local authorities, the buildings had to become part of the public school system and both whites and blacks had to contribute funds, or in-kind gifts, to the enterprise.

When he was finished, Rosenwald had helped build 5,357 public schools, workshops and teachers homes in 15 southern states. "The impact...was so great that in the years following World War I it was said that about 60% of American blacks who had completed primary school had been educated in Rosenwald schools." ⁴

⁴ See Nielsen, Waldemar A. *Inside American Philanthropy*, Norman, University of Oklahoma Press, 1966, p. 44.

These are the markers of distinguished philanthropy: going after root causes of poverty, inequity and disadvantage, and, by doing it, making lasting institutional and social change.

I know some of you may be thinking that this is interesting anecdote, but it doesn't apply to me or my foundation. Our assets aren't huge, you might say. Certainly not compared to Carnegie or Rosenwald, let alone the Rockefellers. But that's wrong; it does apply. The scale of our current problems just makes the challenge clearer and the search for effective strategies more urgent.

Being small doesn't disqualify us at all. We can take very effective, manageable bites. We can work more collaboratively and leverage our dollars. One case in point is the Otto Bremer Foundation's leadership, setting up a collaborative funding pool to build capacity in Hispanic organizations. Another is the St. Paul Foundation's "Diversity Endowment Funds." Joint work, smartly done. That's one step forward.

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How do we do more with less? The MCF reported asset declines at 89% of the state's grantmakers last year. About 1/3 fell by more than 15%. This pattern is deepening and the reduction in grantmaking continues.⁵ More cuts to grantees are in the offing.

In New York City, Professors Julian Wolpert (of Princeton) and John Seely (of CUNY Graduate School) estimate that if the revenues of the nonprofits in New York City fell by 15%, the number of organizations operating at a deficit would increase from 29% to 71%. In human services it would be 81%.⁶

But reduced grants are dwarfed by necessary reductions in state and local budgets. Like all state governments, Minnesota *must*, constitutionally, balance its budget.

And the public sector is being swept under by the tide of anti-tax, anti-government ideology. Some groups, like the Minnesota Taxpayers League, carry the flag. Today our civic compact is assaulted by calls like "it's your money" or "take your money back." Yet public education, health care, parks, transportation,

⁵ Minnesota Grantmaking 2002 Outlook Survey, p.1,2.

⁶ New York City Nonprofits Project, based on core files of IRS 990 data.

and environmental health need more attention, not less. **Minnesota's collective needs are on a collision course with individuals' willingness to pay for them – and there's no doubt in my mind which side is winning.**

But there's a lesson here too. It is found in last year's "Think Twice Before You Cut" campaign by the Minnesota Council on Nonprofits. This advocacy to forestall huge reductions in human service programs was very successful, if only temporarily. It came in response to a sudden crisis. This made short-term action more feasible and attractive.

So I ask you: don't we need a long-term strategy to preserve our most important, vulnerable programs? Don't we need -- in this most sophisticated of states -- a long-term response to the tax cutters among us? Isn't this, too, a job for foundations?

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With the challenge so large, I think we must "look inside" at our own operating procedures first. We may not be able to balance the state's budget but we can do our work much more expertly, and help make the allocations go as far as possible.

Our job has become largely due diligence and checkwriting. We are more focused on making good grants than on doing distinguished philanthropy. There is increased attention being paid to collaboration, building metrics and introducing accountability. But the current paradigm of philanthropy is still discrete, isolated and modest to the point of timidity. Here are five initiatives we can all take to change course and advance our effectiveness:

First, we must become even better listeners and learners. It's hard to look up from our guidelines and time commitments, to take the time to learn from our grantees; what they think as well as what they do. Every observer knows this. One thing I constantly find is grantees feeling put upon, if not abused, by grantmakers. The inherent power imbalance, sometimes made greater by an experience imbalance, hurts relationships and program implementation. We need to do better, **together**. (Christine Letts and Bill Ryan of Harvard's Kennedy

School have been studying this phenomenon, in an effort to define what is “high impact philanthropy.”⁷)

It’s so hard to listen, learn and then *co-create* programs with nonprofit **partners**. MCF has done really well with publicizing its eight "Principles for Minnesota Grantmakers." Improved communication and collaboration need to be a basic job of program staff and presidents. The goal is to be at least as helpful to grantees as grantees are to foundations.

We have to restrain ourselves in initiating our own projects that don't account for the needs or capacity of the field. We need to selectively expand our time and dollar commitments to grantees. Even in this downturn, we probably need to selectively **add** staff. In Minnesota, with the surging non-white population of Hmong, Somalis and Hispanics, it is especially important to take the time to listen, learn and connect. Where language and culture are so distinct, the need for patience, respectful collaboration and insight is at a premium.

Second, we must be knowledge-builders and knowledge-sharers.

Imagine if funders and grantees made it their point to capture and disseminate all the useful information they commission, collect or compile. All the due-diligence reports. All the trends in their fields of interest. All the reviews of the local neighborhood leadership. All the GIS maps and capacity analyses of cities and regions. All the evaluations. Reinventing the wheel is costly. Tens of millions of dollars and tens of millions of hours each year can be put to better use.

For example, think of a central repository and information delivery system for each sector in Minneapolis, or in Minnesota. The McKnight Foundation and 11 others have begun to do this. The collaboration may soon lead to joint studies, specific policy recommendations and joint funding of a statewide Ready 4 K program.

The fact is, most philanthropy operates in isolation. Knowledge and information are compiled and tucked away. The field itself has little tradition of collaborative investigation, open communication and broad dissemination. That isn't to say fine work isn't produced and dispatched, but that it is neither common nor systemic.

⁷ See Letts, Christine W. and Ryan, William P., draft working paper "High Engagement Philanthropy: Filling the Performance Gap," 7-23-02.

By being knowledge builders and sharers we also become connectors of people to information, and enablers of collaboration. (McKnight recently started a "hot topics" website to cover important issues that need more attention.) We must build hubs of an open network that constantly grows and nurtures its members. This is a key to influence and power.

Third, we must be investors, not just grantmakers. Most of us spend 5% of our endowment annually. We treat this IRS rule as the ceiling on what we can give, not the floor. But I would argue that this is small potatoes. For philanthropy to be distinguished, the solution is to be found elsewhere.

We need to think about investing part of our endowments in mission-related ways. There are increasing numbers of examples to show how philanthropy can really walk its talk.

The McCune Charitable Foundation, the largest in New Mexico, has as its mission the revitalization of downtown Albuquerque -- and to make significant returns in the process. As part of a joint venture with a private land developer and the City, it has contributed \$5 million in equity and low-interest loans which will start to pay big returns in 8-9 years.

The Libra Foundation of Maine carries 30 percent of its endowment in real estate in and around Portland. It has invested \$9 million to revive the Portland Public Market in a blighted neighborhood and is renovating a 1,000 acre parcel containing an abandoned mental hospital to become commercial space and farmland. Libra expects 1/3 of its grant funds to come from its real estate assets.

For the last five years the small Jacobs Family Foundation (endowment est. \$20 million) has devoted all its funds to revitalizing one intensely place-based venture in southeast San Diego in a place called Market Creek.⁸ Last year the Heron Foundation of

New York City decided to use all its endowment, in excess of \$300 million, to invest in local communities for financial and social return.

The most substantial and exciting example is the State of California itself. Under its Treasurer, Philip Angelides, it has aggressively invested in community development projects, to the tune of over \$475 million. The State's two pension

⁸ For several additional examples, see "Doing Well By Doing Good: Innovative Foundation Investments in Place-Based Smart Growth Development," a report by the Funders' Network for Smart Growth and Livable Communities, September 2002.

funds have committed two percent of their portfolios to California's underserved communities including mortgage loans and real estate investments.⁹

Imagine if just five percent of the assets of independent foundations went directly into mission-related investing. That would total nearly \$25 billion in new, income-earning, **recyclable** dollars. It equals nearly all the grants made by institutional philanthropy in the year 2000. The opportunities are solid, numerous and growing, and there are enough intermediaries around to help foundations willing to make the investment. Double the size of our investment in the sector? Absolutely.

Fourth, we must be resolute advocates in the service of our mission. The task is both national and local, and often intertwined.

For example, why not consider voting our proxies when corporate behavior is objectionable? The country's largest public pension fund, CALPERS, has taken this step. It voted last month "to ask three major corporations to become American companies again," giving up the offshore addresses that permit them to escape taxes and reduce shareholders rights.¹⁰ Or, why shouldn't foundations comment (as is their right) on the SEC's proposed rules to have mutual funds publicly reveal how they vote on corporate issues?

Why should we do this? Not because we are anti-corporate, but because as the corporate tax base shrinks, or flees into offshore tax havens, the burden of paying for economic and social programs shifts to individuals, or just disappears.

Also, corporations are part of the American compact. **They are stakeholders, just as we are stockholders.** And we **all** have a direct responsibility to sustain the common good. Less money for important programs hurts us all and brings less fairness in the tax system. When collections are down, services are cut, real people suffer -- and nonprofits usually get left holding the bag.

Advocacy is educational, absolutely legal and often necessary. It's been done here. Five years ago in Minnesota, funders and nonprofits hesitantly put their toes in the water around advocating affordable housing construction. Today the idea is broadly accepted and often part of the public and private planning process.

⁹ Remarks by Phil Angelides, Treasurer, State of California, at the Rainbow/PUSH Digital Solutions Conference San Jose, California, April 25, 2002.

¹⁰ *New York Times*, November 17 & 19, 2002, <www.nytimes.com>.

I've long been mystified why foundations disregard or dismiss advocacy. Paul Ylvisaker, a great leader of our field, once spoke of the “weak identity and self-image of foundations and of the third sector generally.” Back in 1977 he said:

There is little sense of presence, not as much as some of our prose would indicate. When public criticism mounts and attacks begin, we don't bark very loud, and I guess it may be because nobody feels our bite. But I think it may be even more because of public uncertainty over who we are.¹¹

Foundations simply have to find their public voice, and not just occasionally fund others to do it. When we do, we will have a far greater impact on the issues we care deeply about. Effective advocacy is *part* of our job -- and we cannot have lasting impact without it.

Finally, we must be capacity builders. I say this because so much of our funding focuses on programs and planning. Most foundations give short shrift to nonprofit infrastructure. They don't watch to ensure that staff will be capable of delivering on their promises. They pay little heed to reasonable indirect costs.

The best example of systematic capacity building I know has been developed by the Edna McConnell Clark Foundation in New York City. The Foundation has chosen to strengthen a small number of youth-serving organizations for the long-term. It has committed \$25 million annually to nonprofits who build detailed business plans and do ongoing monitoring, which the foundation and the organization do together. Several million dollars are slated to go to each grantee to keep it sturdy, competent and at the top of its class in service delivery.¹²

Another similar example is found in the Washington D.C. region by Venture Philanthropy Partners. VPP is taking up the role of investor, participant, technical assistance provider, mentor, advocate and funder of the groups it has identified.

Our toolbox must include institution-building, at **both** foundations and nonprofits, since both are the key to getting at root cause problems.

¹¹ "The Relationship Between Private Philanthropy and Government," in Conscience and Community: The Legacy of Paul Ylvisaker, ed. Virginia M. Esposito, op cit.

¹² "EMCF: A New Approach to an Old Foundation," Harvard Business School Case Study, Allen Grossman and Daniel Curran, 2002.

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What all this adds up to is a model of foundations doing distinguished philanthropy **in good times and in bad**. It calls for a philanthropy that actively listens, learns, helps, partners, networks, develops and transmits knowledge to its colleagues and its nonprofit partners. It connects them to each other and enables them to build skills and work together for greater impact.

It says that philanthropy can actively **invest** in its mission. It can advocate and help others advocate too, in a constantly growing, interactive network of genuine allies. It says our collective power is greater than our grant money. Power comes from our capacity to analyze and share data, develop positions, collaborate on policy as well as programs, teach others and ourselves, and course-correct to do better the next time.

If we do this we will attack our root cause problems together and make much headway in solving them -- despite the financial slide and perilous times. Ultimately, by heading into the fray together, with our talents, fortunes and voices, can we approach the standards of distinction our philanthropic ancestors set down for us.

Philanthropy is a young field, scarcely more than 100 years old. There is a distinguished future to be created upon a distinguished past. I'm moved to end this talk with a lovely couplet from Psalm 92 about righteous people, which includes you and me and our community. It expresses my hope for our field: "In old age they still produce fruit; they are full of sap and freshness."