

Innovative Philanthropic Leadership
Association of Fundraising Professionals Speech
Alan Broadbent, Chairman Maytree Foundation
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I thought it might be useful to talk this morning about some of the elements of good philanthropic practice. We are in a period of time when there is a lot of discussion both by donors and by charities, and their intermediaries, about new forms of philanthropy, and new habits and expectations of donors. Of course, you want to understand those as best you can in order to serve both charities and donors well, and to maximize the support of good works in the communities you serve.

We talk about venture philanthropy these days, thanks in good part to a 1997 article in the Harvard Business Review by Christine Letts, Allen Grossman, and William Ryan called *Virtuous Capital: What Foundations Can Learn from Venture Capitalists*. In it they pointed out a number of lessons donors could learn from the venture capital community, including the setting of good program objectives, management of risk through close monitoring and frequent assessment, and sustainability planning.

The article caused a stir. And it caused a great deal of reaction. Some of it was useful, and a lot of it missed the point. A number of donors took it as permission to become intimately involved in the charities they were funding. In fact, more than permission, some took it as an obligation. The fundamental assumption was that charities needed more than money. They needed guidance. It went so far that I began to hear at a number of meetings of donors the views that philanthropy was about very much more than money, and that if all we had to bring to the table was money, we were not stacking up as a donor. I even heard the view expressed that money only complicated matters, and that a donor's advice was what was really needed.

This, of course, speaks to the almost immeasurable hubris of donors. As someone who is primarily a donor, I feel free to cut us

up. Donors are easily convinced about our nobility of purpose, our great insight, and our good looks. And, to cut up your crowd for just a moment, we have no shortage of people to shore us up if our self esteem falters for a moment.

This hubris is a hazard that comes with wealth, which in a society which adores wealth is too often equated with other virtues.

Periodically in our society, both in Canada and the US, we have moments of great wealth creation. We've been through one where a number of people had great successes in the technology bubble, if they sold at the right time. Prior to that we had a period of time when people made a great deal of money in real estate, in corporate restructurings through LBO's and MBO's, and in oil and gas production. You can keep going back through the various booms until you get to that old tech boon, the Industrial Revolution.

At each one of those times, we had new people entering into the philanthropic arena with a sense of purpose and design. Whether it was Andrew Carnegie building the American public library system, the creation of the great US foundations by the likes of Ford and Rockefeller, or the more recent international interventions of Turner, Soros and Gates, there have been a number of assertive initiatives. Rather than the funding of traditional charities, each of these great acts of philanthropy has expressed a point of view of how the world works, how it should work, and offered a plan to bridge the two. They were venturesome, indeed. And each was driven by a degree of hubris.

We look now at the state of philanthropy at the start of the 21st century, and we like to think about innovation. Charities and their intermediaries want to understand what is new so they can respond to it appropriately. And the stakes in getting it right are ever more important, because the competition for funds is stiffer each year.

So what is new?

I could make a case that little is new. In fact, I could reach into my ample bag of curmudgeonly opinions, and say that we've seen all this before, and we should just relax a bit.

But that isn't very useful, because I might be wrong. And even if I am right, it doesn't help us deal with issues of increasing competition for funds.

What might be useful is to talk a little bit about what some of the enduring patterns of donor behaviour have been, and I think continue to be. I want to talk about the better practices, the more thoughtful, strategic, and organized practices. It is not because I think that they are necessarily dominant, although I think they are increasingly in use, but because they are the only ones you can really talk about.

A lot of philanthropy remains highly personal, disorganized, idiosyncratic, unpredictable, and episodic. I suppose a fund raiser or charity could build a career out of trying to guess where the frog is going to land on each jump, but that would be an uncertain business. It would be akin to getting the timing of the stock market moves right. So, while some of what I am going to say relates to these less organized donors, I want to deal mostly with those operating at a higher level of sophistication.

To do so, I want to draw on my personal experience as a donor, and tell you about the approach we have developed at The Maytree Foundation here in Canada. Then I want to draw on the deeper and more vast experience of my colleagues at The Philanthropic Initiative in Boston, where I have had the privilege of being Chairman of the Board for a good part of the last decade.

THE MAYTREE APPROACH

At Maytree, a foundation my wife and I founded 20 years ago, we have adopted many of the practices we use in our business, Avana Capital Corporation, a private investment holding company. As in our investing, in fact even more so, we have defined our areas of interest, we have used an investment paradigm, we have worked to establish a contractual relationship with our grantees,

and we have sought to define and determine our return on investment. Our areas of interest, the reduction of poverty and the settlement of newcomers to Canada, help us “stick to our knitting”. The investment paradigm and the use of a contractual base for grants establishes a relationship of equals between us and our grantees. Defining return on investment, usually in social benefit terms, keeps us focused on the effectiveness of our philanthropic investments.

In our business investments we have always insisted that there be three things present. We want to see the Idea, the Plan, and the People.

I know that many of you are familiar with business investing. You ask yourself several key questions.

1. Is this a good business idea? That is, is there a significant customer base for the products or services to be produced? Can they be sold at a good enough price so we can make profits? Can we achieve some competitive advantage?
2. Is there a good strategy to achieve business success? From the strategy, is there a credible business plan?
3. Are the people in the business the ones who can make this successful?

A good business idea, the right plan, and the people to make it work: these are the critical success factors.

What is the application of this to philanthropy? Let me try and restate those three questions.

1. Is this a product or service which is really needed in the community? Would it result in a significant improvement in the life of enough people? Can it be provided at a cost that makes sense? Does this approach to solving the problem offer some competitive advantage over other ways of doing it?
2. Is there a good strategy in place to achieve success? Has a good business plan been developed to implement that strategy?

3. Are the people running the organization capable of making this successful?

As you can see, these questions are virtually identical. There is one difference. In business, we can calculate return. We can subtract the costs from the revenues and say what the expected profit will be. In philanthropy, we have to describe what benefit will result differently.

That is not to say that the outcome is less clear, or less tangible. It is to say it is more difficult to describe. We tend to expend some effort in describing success at the outset. We view each grant that we make as a contract between us and the recipient. It is during the process of negotiating the terms of the contract that the definitions of success get articulated. What will success look like? Once we have been through that exercise, and the grant is made, we have a much better chance of recognizing whether or not we see success later on.

Doing philanthropy with a business hat also offers some other points of view on things which have become popular in the funding world like matching funding and program funding. Lots of donors like matching funding, where they say to a charity that they'll meet half of a funding request if the charity can find the other half. They refer to this as "leveraging" their donations. I look at it as a way of undercapitalizing the enterprise, and undercapitalization may be the greatest contributor to business failure. In my view, the smarter donor makes sure that the charity is asking for enough money to actually get the job done. And many charities have become so attuned to lean times that they don't ask for adequate resources. There have been a number of grants we have made at Maytree where we have talked the applicant into a higher number, because we knew they would fail with the lower one. In some cases, matching may actually bring some new philanthropic money to the table. In most cases, it just diverts existing philanthropic money from one place to another.

It is similar with program funding, where the donor says they will not fund core costs, but only program costs. The presumption

here is that the charity has its core costs covered, and the donor achieves greater “leverage”, that word again, by only funding the incremental costs of the new program. And the charities often fall into a trap by excluding any contribution of core resources from the program budgets, effectively discounting the incremental core costs. Is it smart business to invest this way, to risk instability at the core? As donors, as investors, we have to be sure the host is healthy before we begin to grow new elements. That means, particularly when governments are withdrawing as supporters of organizational cores, that we have to pay more attention to the capacity of the organization overall, at the heart of which is the core operation.

Both of these are cases where the donor’s eye is on their own needs, not those of the recipient. It is about leveraging their own assets, not about building capacity in the agencies which deliver services to clients.

Is what I have been talking about the so-called Venture Philanthropy? In business, there are various ways to do venture capital. There isn’t one model. The only basic description I know of venture capital is that it is high risk, high return. You recognize that of ten deals you do, many will fail, a few will struggle along, a few will be modest businesses, and only one or two will be what we call home runs. Those home runs need to give big returns, 30-40%, to account for the losses. I can only guess what the return analogy is in philanthropy.

The term Venture Philanthropy, though, often refers to the style of engagement between the donor and recipient, and I want to say a few things about that. It refers to a style where the donor gets very active with the agency, as an investor might get involved in a company, working with management closely in the development of strategy and plan, and in some cases the running of the enterprise.

ARMS LENGTH

There is a concept beloved by financial community regulators called “arms length”. It concerns avoiding self dealing or other behaviour which treats other investors unfairly.

As I’ve said, we do venture capital investing in a variety of ways. In some cases, rare ones, we actually take over companies and provide management, select the board, and create the business strategies. We are the largest, and sometimes the only, investor in such cases. If there are other investors, we treat them exactly as we treat ourselves. But we are not at arms length.

Our preferred way of venture investing, though, is to take smaller positions in companies we believe will be successful, and where there is a larger shareholder in control. In these cases we do not usually sit on the board, we never become part of management, and we never meddle in operating matters. We don’t do this because we want to be able to divest of our interest opportunistically, and we want to rely on the people we think can deliver business success. We deliberately stay at arms length.

When we started in philanthropy, we decided to take the same approach as we do in business. We identified one venture in which we wanted to be “the controlling shareholder”, The Caledon Institute of Social Policy, and I chair its board and am involved at board level in strategic and business decisions. I have an excellent CEO at Caledon in Ken Battle, and he develops the strategy for board approval, he runs the business, and I don’t meddle in that.

For the rest of our philanthropy, we are very deliberate about being at arms length. We do not sit on boards, we do not impose strategy or tactics, and we do not hire and fire managers. We do insist on good reporting, to aid our evaluations, and we like to talk to management to find out if they are on plan or if their approach has changed from our original understanding. But we do not get involved in management or developing strategy. We will, from time to time, fund an organization engaging in strategic work, or improving their managers, but only by funding the process, usually

involving outside advisors. We will sometimes recommend such a process.

I took this approach for a simple reason. I want to decide whether to continue a grant based on what they have achieved, not on what I have influenced them to achieve. As I mentioned earlier, it is amazing how smart, interesting, and good looking you become when you have money to give out. The donor's voice is disproportionately powerful.

I saw a number of examples in the US where enthusiastic donors got side by side with managers in a charity and redesigned what the charity did. Two things tended to happen. The attention of the donor shifted, or the enthusiasm waned, and the charity was off course. Or the new direction didn't work, and the donor withdrew, blaming the managers. The charities were furious at being cut off because they thought they were just following instructions. Lose, lose.

Can arms length be violated by so-called venture philanthropy. Probably, by donors who observe three things carefully:

- Be fully sensitive to the power differential between grantor and grantee, and put it on the table from the outset for all participants to deal with openly
- If you are going to be involved inside the charity, be prepared to wear the results, good or bad
- And be there for the long term. Change takes a long time. You have to stay.

As for fund raisers and the charities for which they work, how do you defend yourself against inappropriate and unwanted intrusion in management by donors? The best way, in my view, is to adopt yourself the idea of a contract around each grant. Spell out what the grant is for, what is hoped to be achieved, and the roles of the two partners, grantor and grantee. How will the grantor be kept in touch with how the grant is performing? What is the frequency and style of reporting? Is there a board seat? Access to senior

management or board members for briefings? Any contact with junior program staff? A good contract or letter of agreement can spell these things out. It does not need to be very formal, or done with lawyers. It simply needs to be clear. And the grantee must be prepared to turn down money if it looks like what comes with the money is likely to be a risk to the organization. That is probably the hardest lesson to learn.

SOME LESSONS FROM TPI

Finally I want to tell you about some of the ideas and trends we see coming from the donors we deal with at The Philanthropic Initiative in Boston. Our clients include individual donors, families, corporate, community and private foundations, and corporations. We talk regularly with people in the philanthropic community in the US, Canada and other parts of the world. This is what we are hearing from donors.

Donors increasingly are articulating the values which underpin their giving. They transfer those values into a clear mission. They are adopting an “investment” framework. They are targeting their giving, defining the specific issues to which they will give. They are gathering a knowledge base in those issue areas, which serves as the substantive context in which they will operate. They are increasingly interested in the impact of their grants, and want to be informed of results. They are beginning to commit the necessary human resources to grant making. And they are adopting a “deal” mentality which seeks benefit for all parties to the deal.

Some promising **emerging practices** include an orientation to the *public policy* dimensions of issues with the intention of getting at high leverage as opposed to smaller scale solutions. They are focusing on the *communications* dimension of community work, by which I mean not the trumpeting of their grant making but the sharing of lessons among charitable agencies, NGO’s and other stakeholders. They are focusing on the critical importance of *leadership* in social change, and funding both the development of leadership and the *strengthening of agency capacity*. They are both

collaborating with other funders, and funding collaboration among agencies on the ground. They are looking for the *critical gaps* in the community, and working strategically to fill them. And they are recognizing that *their own capacities to manage* are limited, and are not taking on that which cannot be managed effectively.

In terms of **trends**, there is an increasing interest in *accountability and transparency* both at the grant making and agency level. They are building it into everything they do, and require it from grantees. Both learning systems and collaborative mechanisms are becoming *international*. And, foundations are increasingly *running programs themselves*, when they have not been able to find suitable intermediaries for community work.

HOW DOES A FUND RAISER RESPOND?

Much of this can be very disconcerting to members of the AFP. If I could boil down my observation about how donors are changing, I might say that they are becoming more businesslike and less emotional. Many donors still respond passionately to causes, but that is not enough of an appeal. They want to know that the group asking them for funds has, essentially, the right idea of how to deal with an issue, the right plan of operation, and the right people to execute the plan. Appealing to them on that basis is likely to have congruence with their self image.

From my perspective as a donor, I want to be approached on a business like basis, not as the quarry in an emotional or dutiful hunt. I want to be presented a business case as to why I should support something. And, when I make the grant, I want to remain plugged in to the project or organization on the same business like basis, with the kind of substantive reports I might expect from a business investment. I don't want photo ops, or plaques with my name, although they can be part of it. I don't want phone calls telling me of all the successes, but never of the issues or challenges.

At the end of the day, what we all want from the good works that we fund is their success. We want to see, in the process of

achieving and maintaining that success, evidence of passionate and smart people executing a sound plan in pursuit of a good idea which will meet the real needs in our communities. The more you can show me that this is what my money will achieve, the more appropriately you will have responded to the donor's needs.