

## 10 Things We'd Like to Tell Every New Philanthropist

By Paul Schoemaker, Executive Director, Social Venture Partners Seattle, 2008

*Important Note – This is written in the spirit of sharing knowledge and helping philanthropists be more effective. Every mistake articulated here has been made by all of us. The intent is not to preach a one-size-fits-all formula or to be arrogant in our viewpoints. Our sincere hope is that it will encourage reflection and stimulate lots of feedback, criticism, and conversation.*

**Lesson #1 – “I want all of my contribution to go directly to the program and the kids being served and not have any wasted on overhead or administration”**

This desire is well intentioned, but the consequences can oftentimes be detrimental. How so? First of all, what is “overhead and administration?” For example, are staff overhead? Non-profit organizations are businesses just like any for-profit entity, but with a social mission. They have to invest not only in the “product,” but also in the systems, infrastructure and operations to support the end product. Let’s use an analogy here from the private sector: What if an investor in Intel was able to buy shares, but then instruct Intel Co. that they could only spend that money on engineers and chips? Who knows better how to ultimately, collectively invest its capital – an investor or the employees of that organization? Can you have a successful company without a sales, marketing, and finance infrastructure to support the product? A non-profit has to build a successful, holistic enterprise just like any other business.

This kind of “micro-targeting” of some philanthropic dollars can have other consequences: it can lead to under-funded

organizational structure with a demoralized staff and reduced internal capacity. It can force the non-profit to play a “shell game” with donors where it rearranges its numbers to create the appearance of 100% program spending, and it can lead to a non-profit executive having to make suboptimal spending tradeoffs. This is not to suggest that a donor shouldn’t care about where their money goes and what the ultimate social benefit is. But the practice of over-controlling and directing a donation to a non-profit is like asking a non-profit to put together a 100-piece puzzle, but having duplicates of some pieces and none of others. The puzzle will never be put together right.

**Lesson #2 – “It is clear this non-profit needs my support more than the other. This non-profit might not survive without my contribution and that other non-profit has plenty of money.”**

There are certainly times where urgent financial need is the right criteria for making a grant decision. But just as often it is not. When presented with this scenario, consider some questions – why are they in such dire need? Why are they so low on cash? Should I fund organizations based on financial urgency or on positive impact? Sometimes a non-profit might be in that circumstance because of poor cash planning, questionable program effectiveness, or ineffective fund development. The point is not to categorically reject or approve giving to an organization in need, but to take a little time to understand why that is the case.

On the flip side, philanthropists will sometimes shy away from funding successful non-profits with a strong financial position because they don’t “need” it as much. But why would we punish successful organizations? Isn’t that what

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we want? Organizations doing great work, with effective programs, and that have the ability to sustain and maintain funding over time.

Lastly, there can be a tendency for philanthropists to fund **need** instead of **impact** because one organization's mission is more compelling than another's. We all want to give to what we care deeply about and there is nothing wrong with that. While difficult to measure, at the end of the day the reason to contribute to a non-profit is to get improved academic outcomes, fewer teen pregnancies, a cleaner environment, and other positive changes in our world.

### **Lesson #3 - "I need to be careful to not let the non-profit get too dependent on my contributions"**

Logically, how does discontinuing funding to a non-profit make them more "independent" or "less dependent"? There is a reality for most non-profits – they depend on funders (corporate, individual, public) for some or much of their revenue. To the degree that they have fee-for-service, or earned income revenue streams, they can become less dependent on philanthropic sources of funding. But discontinuing their funding is not an action that prevents or reduces their dependency per se. If a funder wants to improve a non-profit's independence and long-term sustainability, they can focus on capacity building, longer-term and bigger grants, investing in outcomes systems, etc.

On a related topic – sometimes funders / philanthropists will be less likely to give to a non-profit with a strong net asset position, because "they are already financially strong enough and some other org needs my money more." Yes, there is such a thing as too cash rich

(e.g. more than 1-2 year's annual budget amount held in Net Assets), but a non-profit's net assets are its working capital, its investment capital, its buffer against the ups and downs of running any organization. It's not money "just sitting around, doing nothing."

### **Lesson #4: "The non-profit needs to be run more like a business and set specific goals ..."**

Like a lot of things in life, it depends on what you mean by the words "run like a business." Sometimes the expression is used inappropriately and ignorant of the unique issues a non-profit faces. Three simple examples: 1) in most situations in the non-profit world, the "end customer" does not buy the product or service, 2) the usual economies of scale are often not present for non-profit direct service organizations, and 3) there is no clear "market signal" like earnings per share to guide and optimize where capital flows; in fact sometimes money can run away from successful non-profits because they don't "need" it as much. Non-profits don't need to be "run like a business" when it comes to mission, effectiveness and resource allocation, etc.

But when it comes to efficiency, operational processes, measurement, etc., non-profit organizations can learn important lessons from private sector business (and some certainly have). No matter how fuzzy or grey the social outcomes are, measurement is important. How else do you know if you are realizing your mission? Areas like how to...do strategic planning, build financial / cash planning scenarios and tools, hire and retain quality staff...are all examples of domains where running a non-profit more like a business does make sense. In the end, the only reason to do

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so is to help the non-profit increase its capacity to be effective at achieving its mission.

P.S. By the way, private sector businesses could learn a lot from non-profits as well, but that's another future topic altogether.

### **Lesson #5 -- “I think philanthropists that are public and visible are just showing off with their money”**

There are cases where that is true and certainly it's a personal decision about how public or private to be about one's philanthropy. More often than not, someone being more public or visible about their philanthropy is done for a reason, i.e. to show leadership and commitment to a particular cause. And to do so as a means to an end, to help raise more philanthropic capital. This is true especially for newer organizations and causes.

Like most things in this world in we each invest, we want to know who we are investing in (not just what). And knowing who the other “investors” are is an important signal that may guide our own decisions. Visible philanthropy might occasionally be motivated by arrogance, but more often it's a signal of public leadership and commitment.

P.S. A lot of those people that are the most visible in their philanthropy in one realm are also very private or anonymous in other areas of their giving.

### **Lesson #6: “I joined that Board because I was invited by a friend and it looks good on my resume”**

Just don't :-) If you look across the non-profit/philanthropic sector, probably the #1

challenge is Boards that do not understand their roles and do not carry out their goals. Given that, we must have committed, focused, high quality people join Boards. Not people who do it to pad their resume or because they are only doing a friend a favor. If your time and energy is limited, join one Board and do it great rather than joining two or three Boards marginally. Or, if you want to be helpful to a non-profit, but not sure you are ready to step up to a leadership role, find another entry point-- like a lower-intensity volunteer role.

We feel so strongly about this that we are co-developing a new curriculum series later this spring at the Evans School at UW on “*Advanced Board Leadership*” (details to follow).

Boards **own** the organization. They are its stewards and governors. Don't take on that vital role unless you are committed to acting on and believing it.

### **Lesson 7: “Non-profits move so slowly; it takes forever to make decisions”**

Yes, there are some non-profits that are inefficient, just like some for-profits. But more often than not, the pace and decision-making style of a non-profit is more consensus-driven because of its constituencies, communities, and clients.

Their missions and decision makers are, on average, more diffuse and varied and the goals more numerous. It is just a different context in which works gets done and goals achieved. It dictates a different kind of strategy and tactics. This does not mean that any organization, non-profit or for-profit, should accept mediocrity, unnecessary bureaucracy, or ineffectiveness. It does mean that, as a donor, you need to know

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you are working with a different “industry” with a different set of norms and rules.

### **Lesson #8 - “I have a great idea for a new program that XXX could try for kids. I just want to run it by them”**

Whoa! Slow Down! Or more accurately, be very cognizant of what you know and *what you don't know*.

Be sure your suggestions are within your expertise, relevant experiences and interactions with nonprofits. Given the range of pressures a non-profit faces from a myriad of funding sources, they have “big ears” and sometimes listen to and even act upon a lot of suggestions and “ideas.” Just be mindful of that.

### **Lesson #9 - “I want to be sure our family foundation is around for a long time to come so I need to be sure to spend only as much as I have to every year”**

There is nothing wrong with that approach, but you might want to consider what more and more philanthropists and foundations are doing now (i.e. giving away their full corpus within a stated time frame.) Bill and Melinda Gates said 50-100 years, Warren Buffet said 10 years! Whatever the amount, the decision is driven, in part, by the good ol' time value of money--a dollar spent today often has more value than the same dollar spent in the future. *If that economic concept applies anywhere, it should really apply to the application of philanthropic funding to social needs and problems.*

Some causes and non-profits might deliver more positive good in the world if they had the same amount of money sooner vs. spreading it over a longer period of time. Again, this

certainly is not a “mandatory,” but it is worth your strong consideration if you are creating a family foundation or some kind of permanent corpus.

### **Statement #10 - I have a great idea for a new program - I'll start my own nonprofit.**

It's the last time we'll say it – just don't! Or certainly make it your last option. There has been a proliferation of non-profits over the last 10-20 years, some of them quite valid and needed. This also means there are more and more small organizations struggling to get enough resources to reach some level of sustainability and organizational capacity.

In short, it is much easier to start a non-profit than a for-profit company, but it is much harder to effectively sustain a non-profit over the long-term. When you have a new idea, please be sure to look around to see if anyone is already doing the work you care about; or if there is someone to partner with or someone that might want to take on a new “line of business.”