Re-imagining philanthropy

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An uncharitable view of the charitable sector is that it is unprofessional and ineffective. According to this perspective, if charities only acted like businesses, they would have a greater impact.

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Is this assessment correct, or does it fail to take into account the conditions in which charities operate? Do charities even get the opportunity to act like businesses? And what has any of this to do with the relationship between money, mission and philanthropic return on investment (ROI)?

This paper attempts to answer these questions before describing how donors and charities can cooperate to achieve a greater impact. It draws on the experiences of its authors. Both believe that unintentional pressure from funders can hamper the work of charities; both see a vital role for enlightened and creative philanthropy in bolstering the sector.

So what's the problem, exactly?

The charitable sector has grown, largely in response to heightened awareness of social and environmental problems – many of which are increasing as a by-product of globalisation and economic growth (GDP measurements ignore the true social and economic costs of development).

Charities are required to manage human and environmental needs but their revenues do not keep pace with burgeoning demand. There is simply not enough money to address the symptoms of the problems charities wish to tackle, let alone their causes. Additionally, the sector as a whole receives little by way of core funding, which renders it incapable of building the systems required to deliver real solutions: most donors contribute only to individual charity projects.

Our research highlights that this lack of core support can affect the overall strategic direction of charities, some of which over-focus on work that has the greatest chance of fundraising success, or compete rather than cooperate in areas of shared interest. This ultimately reduces impact, but meanwhile the quest to demonstrate ROI means that charities seldom admit to the challenges they face, or learn from their failure to meet goals.

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The role of donors in reinforcing these problems is clear: evidence suggests that most switch off when discussion about a charity's work, deeper purpose, potential or effectiveness becomes too technical. In some respects, it is easy to see why; outcomes are more interesting than processes – emotional appeals and narratives, more compelling than facts and figures. Only the most business-minded will understand how an investment in the core infrastructure of a charity can add value.

And what's the solution?

The good news from our research is that many charities recognise the need to collaborate, innovate and adapt. They will do so if they have the opportunity.

In the business world, the need to invest in people, innovation, operations and information systems is well recognised. In the charity sector, perversely, a key metric is how little funding is spent on all of the above. Why? Charities need to receive the right kinds of core infrastructure to stay forward-looking and effective. Most simply do not.

If philanthropists devoted their resources, both intellectual and financial, to supporting the core functioning of those charities which demonstrate the greatest potential, encouraging them to enhance their strategies, collaborate and take measured risks – either to scale tested solutions or innovate where there were none – their funds would be well allocated. This approach would produce a compounding effect over the long term and could lead to systemic change.

How should we understand impact?

The advent of 'impact philanthropy' is a step towards a more powerful and enabling dynamic between charity and donor. However, our research suggests that the metrics currently deployed to assess ROI are superficial, and mainly document a charity's ability to fill in complicated forms. They do not capture nuanced (yet vital) aspects of a charity's work; the prevailing view is that if it can't be measured, it doesn't count.

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An over-reliance on metrics that have no rational basis other than being commonplace, means that charities and donors alike do not have space to interrogate successes, to understand how they were achieved, or to predict any risks associated with them; nor do they give room to acknowledge challenges or foster deeper reflection.

In charitable endeavours, the path to well-implemented projects is not always straightforward. To achieve real impact, a charity needs to know how to turn failing projects into successes; cooperate with others to ensure that results are lasting; and adapt strategies so that they can overcome obstacles. This is where experience, cultural awareness, leadership, negotiation and communication skills are so important. Philanthropic investment in people who can think strategically and build strong organisational cultures, empowering multi-disciplinary teams to work creatively and with rigour makes a difference. ROI measures do not focus on these qualities, yet they are the very things that set some charitable organisations apart.

Intangible value is the vital ingredient in the work of charities, helping them to address complex problems, ensuring that they do not opt for short-term gains over long-term success. For example, if a charity focusing on poverty reduction has such qualities, it will not implement damaging forms of agriculture in developing countries because it recognises that any benefits will be short-lived, and that the costs to communities and ecosystems will be substantial.

Some philanthropists are already beginning to recognise the benefits of assessing intangible value over straightforward ROI. They see the interconnections between social and environmental problems and seek to tackle the roots of both; they no longer want to be the funder that only kicks the can a little further down the road. They understand that the role of philanthropy is to be strategic; to enable cross-sectoral collaboration (network capital); seed innovation (risk capital); and finance successful interventions into the long-term, with a view to replicating and scaling them (patient capital).

Commonly used ROI metrics do not capture this insight or ambition. Yet they have become a normal, everyday part of the donor arsenal, and charities – drowning in the report forms they have to fill in to attract yet more application forms – are using them to 'demonstrate their success'. It is hardly surprising that some are driven to over-state their achievements but while this might bring some short-term benefit to the charity, it creates long-term problems for the sector and – as has been shown – for the people charities serve.

So what SHOULD we assess?

Research suggests that small, restricted, short-term grants *succeed* 20 per cent of the time while larger grants over longer time lines only *fail* 20 per cent of the time. One can conclude from this that longer-term support allows charities to concentrate efforts on fulfilling their missions rather than on fundraising.

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So rather than focus on short-term ROI, we believe that philanthropists should provide long-term backing for people who can make a difference. Getting a sense of who to fund is obviously harder than measuring short-term gains from a project, but it is demonstrably more effective at delivering 'bang for buck'.

With that comes a warning: bigger organisations have better means of drawing attention to their work, but they are not always the best ones to support. There is growing recognition that local groups have a better handle on the needs of the people and places that they were set up to serve, and have a greater impact. We should be just as comfortable with the concept of innovation in the charity sector as we are in the business world; there is no reason why the largest organisations cannot be challenged by local initiatives.

Locating those people and finding out whether they stand up to scrutiny is the subject of our next essay. We believe that this is where philanthropists should put their brainpower, their resource and their business acumen. If they do so, they can offer charities the support they need. It is not just about giving money: a holistic approach, critical reflection, engagement with current research, strategic thinking and network building are the hallmarks of the most impactful philanthropy and they should frame our approach.

***Dr Laura Miller** is Executive Director of Synchronicity Earth, a charitable foundation whose aim is to halt the extinction crisis by targeting donor resources towards the most needed interventions, carried out by the most capable groups and individuals. As well as providing philanthropic support to the right people, Synchronicity Earth bolsters their work, creating networks between them and involving people from all sectors – finance, the arts, philosophy, science, technology, anthropology – in galvanising action. Rigorous research and due diligence is integral to its model, as is a willingness to 'create synchronicity' to engage people from all walks of life.*

***Michele Sanders** Michelle heads up the risk and due diligence function at Synchronicity Earth. As well as being responsible for risk identification and management, she is currently using her previous experience as a financial, sustainability and ethics auditor to develop a due diligence process that is grounded in empirical research rather than merely on management consulting principles. This research also formed the basis of her D.Phil at Oxford University, which was submitted at the end of 2015.*