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Supplement

Last winter, in time for our Kaifeng Foundation's five-year anniversary, we were pleased to invite The Philanthropic Initiative (TPI), a world-class American philanthropic consulting firm. TPI worked closely with us in providing strategic consulting as we reflected both on our victories as well as our setbacks over the past five years. The result was a strategic plan to guide our future development. The following passage comes from the opening section of TPI's Strategic Advisory Report, and provides an overview of how philanthropy developed in the US and how this has led to its current context of giving. The insights are certainly a worthwhile reference for leaders and individuals who are involved in improving public welfare.

Overview: Foundations in America

"Philanthropy is the practice of applying assets of knowledge,
passion and wealth to bring about constructive change."
Peter Goldmark – past-president Rockefeller Foundation

There are more than 76,000 foundations in the U.S. today, with combined assets of over a half trillion dollars, giving away about 47 billion dollars each year, representing 14% of the total ($290 billion) U.S. charitable giving. Private giving - by individuals, foundations, and corporations - comprises approximately 2.1% of gross domestic product, about three times as much as the next closest country (the United Kingdom). How did this massive philanthropic market come about? Some scholars suggest that philanthropy - and a penchant for organizing independent of government - is intrinsic to American DNA, and that the roots of today's powerful, wealthy foundations are inextricably linked to the attitudes and values of American society from its earliest days. French philosopher Alexis de Tocqueville observed in 1835 that "Americans group together to hold fêtes, found seminaries, build inns, construct churches, distribute books, and dispatch missionaries to the antipodes. They establish hospitals, prisons, schools by the same method. Finally, if they wish to highlight a truth or develop an opinion by the encouragement of a great example, they form an association."

De Tocqueville was remarkably prescient. Certainly the U.S. economy, society and government would not operate the way they do today, without the huge influence of this "third sector." But the path to influence was not without obstacles, and there are valuable lessons to be learned both from the successes and the failures of American philanthropists, and the foundations that would powerfully shape the field. The following overview aims to succinctly present some of those lessons, providing a preliminary overview of 1) the evolution of American philanthropy and foundations, 2) major trends both long-term and more recent, and 3) best practices of high-impact foundations in the United States.

EVOLUTION

To understand the busy marketplace of American foundations today, it is instructive to examine how these institutions - and philanthropy more generally - have evolved over time. That evolution can be separated into four distinct thematic eras: ①

Era 1 (19th Century): Sectarian and Narrow-purpose

Era 2 (1900-1950): Secular and Institution-building

Era 3 (1950-1990): Search for Strategy and Relevance

Era 4 (1990-Today): Diversity, Innovation and Effectiveness

Era 1: Sectarian and Narrow-Purpose

Many of the original American colonists, having fled religious oppression in Britain and France, were quick to organize themselves into self-governing religious congregations. These groups provided education, health care, and other essential social services. As the scholar Max Stackhouse notes, "In the name of God, they claimed 1) the right to be, 2) the right to organize, 3) the right to care for their neighbors, and 4) the right to set forth their views publicly." Most philanthropy was therefore focused on morality and religion, a structure which persisted into the 1850s. Churches and religious revivals drove the majority of organized giving and "charity was seen as the way to save one's own soul while also helping those in need."

Around the middle of the 19th century some donors branched out from this strict, specific-purpose interpretation, to a more individualistic notion of philanthropy. However, it was not until the 1880s that the 'great American age of philanthropy' began in earnest, driven by large fortunes (and personalities). While many wealthy donors became more explicit about using their riches to influence society, only a handful identified particular problems they hoped to fix, and still fewer provided any kind of explanation or rationale for their choices. But the enthusiasm and resources were there. Steel magnate Andrew Carnegie published his treatise "Wealth" in 1889, in the journa North American Review. The article exhorted wealthy industrialists to split their lives into two parts: the first, devoted to the accumulation of money, and the second, devoted to its distribution to benevolent causes. Carnegie argued that philanthropy was the means to make a life worthwhile. As the country neared the turn of the century, more affluent individuals seemed inclined to agree.

Era 2: Secular and Institution-building

At the turn of the 20th century, American industry was booming and the titans of business - John D. Rockefeller of Standard Oil, Andrew Carnegie of Carnegie Steel - were accumulating wealth at a breakneck pace. These men (and occasionally, wealthy widows) were eager to fundamentally change systems they believed generated endemic societal ills, to treat not the symptoms but the underlying disease. As Rockefeller pointed out, "charity is injurious unless it helps the recipient to become independent of it." Increasingly, the way they tackled this was through building institutions. This characterization of the period is promoted by both Joel Fleishman and the historian Olivier Zunz (Philanthropy in America: A History, 2012). Carnegie, Rockefeller, Margaret Olivia Sage, and Edward Harkness are all exemplary of this institution-building period in American philanthropy.

① *This framework is drawn from the forthcoming book by Helmut K. Anheier and David Hammack, A Versatile American Institution: The Changing Ideals and Realities of Philanthropic Foundations, Brookings Institution Press, expected February 2013.*

For example, to combat illiteracy, Andrew Carnegie built 2500 public libraries around the world,1681 of them in the United States. In 1901, Carnegie gave $2 million to start the Carnegie Institute of Technology (CIT), which later became part of the prestigious and highly regarded Carnegie- Mellon University in Pittsburgh. One year later, he gave an equivalent amount to seed the Carnegie Institution, a research center, in Washington, DC. In 1905, he established a pension fund scheme for American college professors, which eventually evolved into TIAA-CREF - today a Fortune 100 financial services organization and the leading retirement provider for Americans in the academic, research, medical and cultural fields. Extending pension benefits to academic faculty was groundbreaking at the time. It was also a way for Carnegie to secularize higher education: eligibility of faculty "was dependent on the college removing from its charter denominational requirements (such as requiring trustees, officers, faculty or students to belong to any specified sect or imposing any theological test)." Andrew Carnegie went on to create The Carnegie Endowment for International Peace, the Carnegie Foundation for the Advancement of Teaching, and the performance venue Carnegie Hall in New York City, among myriad other large-scale projects. One of his final donations financed construction of the buildings now housing the International Court of Justice in The Hague (Netherlands).

John D. Rockefeller, whose vast riches came from oil, was another institution-building philanthropist. His generous grant to help found the University of Chicago in 1890 set the stage for the secularism, and scientific ethos, of foundation philanthropy in the early 20th century. While originally conceived of as a Baptist (religious) institution, the incoming president of the University, William Rainey Harper, insisted he be given complete freedom to recruit the 'best minds' regardless of their religious affiliation or beliefs. Rockefeller was an observant Baptist; Harper himself was an ordained Baptist minister. But, like the others in the University of Chicago's founding group, Harper "placed advancing knowledge ahead of sectarian loyalty."
Other influential institutions soon followed: in 1901, the Rockefeller Institute for Medical Research (later named Rockefeller University), and in 1903 a General Education Board which advocated for education at all levels throughout the U.S. Rockefeller created his self-named private foundation in 1913 with $250 million, initially focusing its work on public health, medicine, and the arts. He is also credited with inventing the first conditional grants, which required recipients to also raise money from a wide array of benefactors. This system was intended to increase oversight and accountability; a variety of benefactors would theoretically take an active interest in the performance of their nonprofit investee, much as shareholders in a company might take an active interest in the performance of its stock.

Another scion of early 20th century philanthropy, Margaret Olivia Sage, established the Russell Sage Foundation in 1907. Sage inherited her wealth from her late husband; her initial gift to the foundation was $10 million. Like her philanthropic peers she was interested in using her resources to improve social and living conditions in America. The Sage Foundation was a pioneer in the funding and application of primary research - another example of the scientific rigor that characterized private philanthropy during this time. For example, the Sage-funded Pittsburgh Survey was the first comprehensive attempt to survey employment and living conditions among working class citizens in a major U.S. city. The findings of the Survey inspired political and industry reforms that would improve working conditions and employer liability systems, and help put an end to the12-hour workdays typical for Pittsburgh steel workers.

Another wealthy widow, Anna Harkness, founded the Commonwealth Fund in 1918 to reform the health care system in America. Scientific research informed much of the Fund's work from its earliest days. In 1920, the Commonwealth Fund helped provide the seed funding for the National Bureau of Economic Research which today enjoys unparalleled credibility and influences the public policy, business and academic discourse. Several of the Commonwealth Fund's other initiatives are outlined in more detail in the following pages.

It is interesting to note that while 'strategy' was not in common parlance at this time, the lions of philanthropy in the early 1900s were in fact very scientifically rigorous. As scholar Joel Fleishman points out, Carnegie, Sage and their peer foundations were committed to getting their facts right, precisely identifying the problem(s), studying options for action, finding partners, flagging obstacles, and only then developing a plan that included "a clearly defined objective, benchmarks for progress, and methods for collecting data and measuring impact."

In a word, they were committed to what we now call strategy. This rigor may have had its origins in the foundations' powerful, profit-minded leaders, drawn from and shaped by a competitive business environment. "To his philanthropic causes," scholar Waldemar A. Nielsen noted, John D. Rockefeller "applied qualities that had brought him success in the business world: single- mindedness, a talent for selecting strong associates, and a readiness to entertain big, bold ideas and to make major financial commitments in behalf of them. Perhaps above all, Rockefeller was a strategic or executive donor, not a hands-on or meddling type."

Unfortunately, this focus on results was not a perfectly linear trend. As the founding principals inevitably moved on, many new private foundation leaders were less concerned with measuring return on investment. When scientific rigor and discipline re-emerged with widespread urgency again toward the end of the century, they would fall under the new catchphrase "strategic philanthropy."

Era 3: Search for Strategy and Relevance

By 1938 there were still only 188 foundations in the U.S. By 1955 that number had increased to 1488, partially fueled by incentivizing tax legislation. For example, in 1952 the U.S. Treasury raised the allowable charitable deduction from 15 to 20 percent of income, and more wealthy taxpayers turned to the family foundation as a good way to shelter dollars in lieu of contributing to an existing charity. Toward the end of this period, we see an explosion of activity (18% increase in the number of new foundations in the period 1980-1990). We also see the first appearance of corporate foundations alongside private, family and public institutions.

But the third era of American foundations is not just a story about rapid growth. In fact many scholars propose that philanthropy at mid-century suffered a kind of malaise compared with the pioneering, society-changing initiatives that characterized the earlier 'Gilded Age' of giving. In a widely quoted article published in Harper's magazine in 1949, Edwin Embree, a former vice president at the Rockefeller Foundation and former president of the Rosenwald Fund, [②] criticized the big foundations as spending only "timid billions" and decried the dearth of "creative attacks on basic problems." He thought their projects were too narrowly defined, and their trustee boards were too conservative, 'clubby' and risk-averse.

Of course, the environment had become more complex. One of the challenges for foundations at this time was the vast increase in government or state funding for research in fields where philanthropy had played a comparatively larger role, in decades past. As Zunz notes, "philanthropic leaders found themselves operating in a world where every program they put forth competed with a federal program."

Despite such difficulties, a few standouts emerged during these years. For example, the Ford Foundation drew praise for its liberal internationalist program. The program, staffed by a highly capable team with H. Rowan Gaither at the helm, ambitiously sought to provide "each human being optimum spiritual and political freedom, opportunity, sense of responsibility and happiness." This mission manifested itself through five research areas: establishing peace, strengthening democracy, strengthening the economy, promoting education, and promoting the understanding of "interdependence as the realization of common interests, common efforts, common humanity and common fate."

The foundation was careful not to commit funds to areas already well-supported by either public or private interests. During the 1960s, Ford was a leader in civil rights and poverty programs, and also spearheaded innovative recoverable investments (called program-related investments) that aimed to reduce recipients' reliance on charity. Through the PRI program Ford proved the credit-worthiness of the poor to commercial banks.

Ford's greatest domestic achievement developed out of its funding of social programs in the inner- city during this same period. Beginning with the Bedford Stuyvesant project in New York City, Ford's work ultimately became the basis for the Federal War on Poverty. President Johnson's Great Society programs, developed in the 1960s, had two main goals: the elimination of poverty and racial injustice. The Ford Foundation is credited as being a major influence on the public policy decision by the federal government to create a model-cities program.

② *The Rosenwald Fund (or Julius Rosenwald Foundation) achieved major success in advancing black education in the South, primarily by building schools and libraries, training teachers, funding fellowships, and publishing research.*

The Rockefeller Foundation also solidified its relevance during the postwar years, through efforts that would later come to be known as the Green Revolution. The project started in 1943 when the Mexican government asked the foundation for help in improving agricultural output for food production. Like Chile, Colombia, India, Pakistan, and many other developing nations at this time, Mexico was barely feeding its skyrocketing population. After agreeing to help, Rockefeller was deeply involved in strategy and operations, and partnered closely with the local government.

Research was immediately put to use and efforts made to train Mexican scientists and farmers. The coordinated approach paid off: between 1948 and 1970, the country's wheat yields rose four-fold. The foundation went on to set up similar programs and research centers in Colombia, India and other nations, and its astounding success soon brought in funding partners (including Ford). The impact of Rockefeller's research is difficult to overstate. As Scott Kohler of Duke notes, "high-yield agriculture is credited with saving at least a billion lives since the 1960s."

The postwar years also saw the birth of conservative philanthropy. Many wealthy conservative leaders - social, political, fiscal - believed it was their duty to wield resources against what they perceived as an ever-expanding welfare state. For example, the John M. Olin Foundation, founded in 1953, gave over $370 million in grants to conservative think tanks, media groups, and prestigious law schools by the time it closed its doors (per the founder's wishes) in 2005.

These foundations tended to support or build organizations rather than individual programs, resulting in a strong infrastructure and media presence that has shaped public policy discourse in powerful ways. Andrew Rich aptly summarizes in the Stanford Social Innovation Review: "The dramatic growth of conservative think tanks in the 1970s, '80s, and '90s was made possible principally with support from a small corps of newer conservative foundations, such as the Bradley, Smith Richardson and Sarah Scaife foundations...Funding organizations to fight the war of ideas became their way of doing it."

Finally, any discussion of philanthropy after 1950 would be remiss without including the landmark legislation of 1969 - the Tax Reform Act - which changed the playing field for private foundations in the U.S. Details of the legislation are considered later in this paper, but the thrust of the reform was an attempt to separate philanthropy and politics once and for all, and a requirement that foundations make disbursements annually, eventually settling at a minimum of 5% of the market value of their assets.

Era 4: Diversity, Innovation and Effectiveness

Despite the comprehensive regulation of 1969, private foundations continued to flourish toward the end of the 20th century and beyond. In fact, the fourth era of American philanthropy – roughly defined as the 1990s to the present day - has been characterized by some as a second Gilded Age.

Certainly, there are many new large foundations with ambitious mandates. Fleishman notes that by 2005 there were 49 U.S. foundations with more than $1 billion in assets.

The creation of the Bill & Melinda Gates Foundation alone changed the landscape significantly, as did Warren Buffett's enormous gift to that foundation in 2006. In 2010, Gates and Buffett spearheaded The Giving Pledge, a group of billionaires who publicly promise to give at least 50% of their fortune to charity.

But these 'big players' are joined by thousands of other mid- and smaller-sized foundations of all types. Diversity and pluralism are also hallmarks of modern philanthropy. Fleishman, Hammack and Anheier all point to the rich variety of foundations today (and their grantees) in purpose, form and function. Many of these organizations are experimenting with hybrid structures they feel give them more flexibility to tackle social problems. One such example is Omidyar Network, started by eBay founder Pierre Omidyar. After establishing a traditional private foundation, Omidyar decided the form was too restrictive and created a network that works with nonprofits and for-profits alike.

Other innovators in this vein include Skoll Foundation, the F. B. Heron Foundation and Google.org. The idea of impact investing, either through program-related investments or investments made directly from a foundation's endowment, is becoming enormously popular; Rockefeller has dedicated a large sum to build much-needed infrastructure (e.g. ratings systems, a 'Global Impact Investing Network') to advance the field. Foundation partnerships with social enterprises are also burgeoning. A culture of urgency and performance, and a desire for sustainability and scale of solutions, underscore many of these collaborations. A challenge for some foundations has been finding staff with the relevant expertise to manage these hybrid programs.

MAJOR TRENDS

Some foundation trends are more recent phenomena ("impact investing"). Others are older concepts that appear to be picking up speed ("spending down"). Some have in fact been around for some time, albeit in different guises ("strategic philanthropy"). Still others, such as regulation, are not really trends at all but more aptly described as themes, tensions, or relationships that have continued to mold the field of American philanthropy in dramatic ways. Each idea is explored in more depth below.

Professionalization. A long-term trend characterizing larger foundations of all types is the hiring of professional staff to run the organization. As scholar Peter Frumkin writes, "...private foundations have succeeded in legitimizing themselves and making their decisions appear to be less a function of board interests and values and more a function of comprehensive and fair review by professional staff." Frumkin traces the origins of this trend to the 70s and 80s, although others such as Fleishman and Zunz note that the 'profession' of philanthropy in fact started much earlier, during the first Gilded Age. In any case philanthropic expertise, including previous grantmaking experience, has virtually become a prerequisite for employment at most staffed foundations in the U.S. today. Concurrent with this trend has been an increase in the number of philanthropic advisory firms and consultants, as well as centers and institutes, at top universities dedicated to studying topics in philanthropy (e.g. Duke's Center for Strategic Philanthropy and Civil Society, Stanford's Center for Philanthropy and Civil Society). Just last year, Indiana University's board of trustees voted to create the first degree-conferring school of philanthropy in the nation. Indiana professor Leslie Lenkowsky says of the school: "It's a coming of age for the study and teaching of philanthropy - just as we have schools for government and business, this will be the first school for the nonprofit sector."

Partnership with government. Private foundations have always had a complex relationship with government. From the earliest days, the government has been on the one hand encouraging of (and dependent on) foundations' charitable work and research, and on the other hand, wary of political 'meddling' by private interests. Under Commerce Secretary Hoover in the 1920s, who proffered a theory of no-cost governance, "philanthropies would become an expression of the executive branch, which would coordinate all matters of policymaking."

Unsurprisingly this arrangement became problematic. Charitable organizations had neither the resources nor the political mandate to provide a coordinated social safety net, or implement politically sensitive social reform such as desegregation. A clearer separation between charity and government ensued under President Roosevelt and the role of federal agencies expanded immensely. During World War II cooperation was again revived out of necessity, and in the years following many of the biggest private foundations worked collaboratively with the government on Cold War strategies; the Ford Foundation was a leader in this area. In their search for relevance in the middle of the 20th century, many foundations also pushed for a reinterpretation of their value proposition vis-a-vis the government, arguing that they could provide 'venture capital' for projects too experimental or risky for the government to take on. In many respects this complementary dynamic of "foundations invent, government implements" would come to characterize the relationship between philanthropy and government going forward, at least in areas of social or medical science. The rise of advocacy-oriented foundation work - explored in more detail below - obviously does not fit this mold.

Regulation. U.S. law and tax policy is also key to understanding the relationship between foundations and government. As Zunz points out, "Federal tax policy, which had played no role in the initial stage of American philanthropy, became the major instrument by which the government could define how much to subsidize giving, under what circumstances, and for what reason." Exemption thus became a powerful mechanism to encourage individual taxpayers to donate to foundations or other charitable institutions, or to create entirely new ones. [3] Joel Fleishman goes so far as to state that public tax benefits of charity constitute the "structural secret" of the strong American civil sector, the private foundation being the "operational secret."

③ *The story of the Ford Foundation is illustrative of the power of tax policy on American philanthropy. It was the punitive 1936 Inheritance Tax Act that likely prompted Henry Ford and his wife Clara to incorporate their family foundation in the same year (and led to the charge that this influential foundation began as a tax dodge).*

Significant tax breaks, coupled with limited accountability or oversight, set the stage for a flurry of congressional investigative committee actions targeted at private foundations. When tensions finally came to a head in 1969, the resulting legislation led to an entirely new regulatory framework. Among other significant points, the Act established rules against 'self-dealing' at foundations; limited the percentage of an individual's income that could be a tax-deductible gift to a foundation; banned grants or activities influencing legislation or supporting political campaigns; and decreed that foundations "pay out" a set percentage of their assets (eventually this settled at a minimum of 5%) each year.

In the aggregate, the cost to American taxpayers of the charitable deduction, including the gifts to private foundations, is $50 billion annually, and has become one of the areas of focus as the U.S. grapples with its budget deficit dilemma. Thus, it is no surprise that there is a debate around tax policy as it relates to charitable giving, including foundations and nonprofit organizations. Both the Obama administration, and Congress, have proposed a wide variety of changes, most of which would reduce or even eliminate, various tax advantages under which foundations operates.

Advocacy. From their earliest days, foundations were prohibited by law from directly funding political campaigns or engaging in lobbying. Nonetheless, throughout much of the 20th century, policy influence was achieved through funding independent research that informed legislation, or through educating the voting public. The Ford Foundation role in the War on Poverty program referenced earlier is a classic example of a foundation first modeling a social program and then actively promoting its adoption by government. That goal remains an aspiration for many foundations. What has clearly changed, is that today many more foundations - with vastly greater resources - are explicit about their intent to change public policy. These 'mega-foundations,' according to historian Stanley atz, "behave as though they are entitled to make public policy, and they are not shy about it."

Research from the Foundation Center supports this view. A 2010 survey of more than 1300 foundations found that approximately one quarter indicated engagement in public policy-related activities; larger foundations were much more likely to fund policy-related initiatives. Over 50% of those engaging in policy initiatives had increased their support over the last 5 years - and almost two-fifths of such funders were not supporting policy efforts whatsoever before 2005. Over 25% anticipated increasing their funding of policy initiatives between 2010-2015. Other characteristics of today's 'advocacy push' by foundations are important to note. For example, reform of public education in the U.S. is a major focus of both private foundations and corporate charitable giving programs. Fewer foundations are interested in achieving policy outcomes through supporting independent research; instead choosing strategies based on accelerating systems change and reform, or improving the quality and reach of public information. Examples of foundations embracing advocacy in this way include the Bill & Melinda Gates Foundation and the Walton Family Foundation.

Strategic philanthropy. As previously mentioned, the concept of strategic philanthropy actually has its origins in the early 20th century. Carnegie, Rockefeller and others in the 'first generation' of big philanthropy were very scientifically rigorous and carefully planned their approaches to programs and grantmaking. The second generation of foundation leaders was somewhat less exacting, and only in the past two to three decades has strategy reemerged as a central tenet to effective philanthropy.

Several figures have helped shape how modern foundations think and go about strategic planning, including Peter Karoff, founder of The Philanthropic Initiative, and Paul Brest, former president of the William and Flora Hewlett Foundation. Karoff is widely credited as one of the earliest and most thoughtful advocates for the concept, which he believes necessitates a foundation's re-orientation from a reactive to proactive stance, along with research, careful planning, careful execution and evaluation. Karoff has also argued that successful strategic philanthropy must also be integrated with philosophy, passion and values – themes that don't fit neatly into a tunnel vision on results. Fleishman seconds this point of view. For his part, Paul Brest uses the phrase 'outcome-oriented grantmaking' to describe philanthropy "where donors seek to achieve clearly defined goals, where they and their grantees pursue evidence-based strategies for achieving those goals, where both parties monitor progress toward outcomes and assess their success in achieving them in order to make appropriate course corrections." Brest believes that the 2000s in particular saw a widespread adoption of this approach. Fleishman, likewise using his own terminology, notes that more foundations are exercising strategic 'instrumental' versus mere 'expressive' giving.

This trend is also reflected in the preponderance of measurement and evaluation groups, such as Grantmakers for Effective Organizations and the Center for Effective Philanthropy. Yet for all the promise of increased impact from strategic philanthropy, some critics claim that foundations are embracing the rhetoric only. In their influential article "Beyond the Veneer of Strategic Philanthropy," Patricia Patrizi and Elizabeth Heid Thompson warn that some foundations are prone to the following mistakes: 1) they stop analysis when implementation of a plan begins; 2) plans are created in a vacuum separate from grantee input; 3) foundations are unwilling or unable to reconcile rigid structures like grantmaking with the flexibility and adaptability that strategic program planning requires; and 4), foundations tend to be silent on how their own specific actions are adding value.

Measurement and effectiveness. More foundations are measuring the impact and effectiveness of their grantmaking activities, and consulting and advisory firms dedicated to helping them do this are proliferating to meet demand. This trend encompasses both assessment of foundation strategies and those of its grantees. On the foundation side, Grantmakers for Effective Organizations (est. 1997 with a membership of over 400 foundations) has become a leading network for philanthropists committed to improving organizational effectiveness and sharing best practices. Foundation leadership has also been changing to reflect the measurement trend. Judith Rodin, who assumed presidency of the Rockefeller Foundation in 2005, created a new position (vice president, evaluations) to manage the foundation's work in this area. The Ford Foundation, Omidyar Network, Hewlett Foundation and Irvine Foundation have likewise taken leadership roles in measuring their social impact through grantmaking.[④] Foundations like Robin Hood have taken the lead in developing metrics that standardize the evaluation of grant performance across fields, comparing the impacts of dissimilar programs by measuring them on the same cost-benefit scale: how much each program will increase future earning and income.

On the grantee side, groups like Perform Well offer performance indicators, questionnaires, and other tools designed to help social service groups collect and analyze real-time data to help them improve programs and measure their impact. Other groups like GiveWell serve as an independent charity evaluator, identifying and recommending a limited number of best-practice charities. Philanthropedia aggregates expert opinions to rate verified charities; Charity Navigator examines financial health, accountability and transparency to rate potential grantees' commitment to good governance, best practices and openness.

Despite this proliferation of evaluation activity and organizations, some experts express words of caution: Gene Tempel of Indiana University worries that return on investment is not always neatly applicable to the philanthropic sector, that margins of error can be enormous, and that trust between donors and grantees may be lost if numbers become paramount. Fleishman agrees, adding that the 20th century witnessed "spectacular successes" in philanthropy that were achieved without metrics or rigorous strategy. [⑤] Peter Karoff has written that "the strong focus on results, on impact, on metrics has been positive, but it has also been seen as counter to a mission-centered approach to philanthropy, as well as an inhibitor to risk-taking and creativity. There has been pushback from nonprofit organizations that perceive these increased donor demands as overly controlling, excessively process-oriented, and expensive." Julie Johnson Kidd, president of the Christian A. Johnson Endeavor Foundation, has observed that there may not be an accurate or useful way to measure outcomes in many areas ("we just try to know the meaning of a grant well"). Kidd also warns that while it is easy to measure things on the periphery of a program, you may be missing the actual meaning of your work in this way – that in many cases "it doesn't feel possible to measure what's important."

Transparency. Historically, private foundations in the U.S. have tended to be opaque institutions with limited accountability and oversight. In the past few decades, many have changed to become more transparent in their governance, decision-making processes and sharing of results. Some of this is likely due to continued public and political pressure on foundations, as tax-exempt organizations with large resources and influence, to open up their books. One result of such pressure was the formation of the National Committee for Responsive Philanthropy (NCRP), now over 35 years old. The NCRP claims to be "the country's independent watchdog of foundations," and advocates for increased transparency along with a renewed focus on grantmaking to help the most vulnerable.

④ *For reference, see the Stanford Social Innovation Review's special supplement "Advancing Evaluation Practices in Philanthropy" <www.evaluation.ssireview.org>.*

⑤ *Gertner, Jon. "For Good, Measure." The New York Times, March 9, 2008. (Note: for a succinct overview of foundation payout rules see "Benchmarking Foundation Payout" by Loren Renz, published by the Foundation Center in 2012.)*

But some of the transparency trend is tied to foundations' own growing interest in strategic philanthropy, increased impact and knowledge sharing as well as technology improvements, which allow easier sharing of data. As evidence, several new organizations tracking foundations and grantmaking data (themselves funded by a handful of larger foundations) have emerged. The Center for Effective Philanthropy, founded in 2001, developed a Grantee Perception Report to help foundations compare their performance. One of the newest initiatives, launched in 2010 by the Foundation Center in partnership with others, is called Glasspockets. Glasspockets tracks 22 different foundation practices and provides links to information on individual websites. The organization aims to "increase understanding of foundation transparency and accountability online as well as off and to illuminate successes, failures, and ongoing experimentation in the field."

Spending down. As pointed out earlier in this paper, per the 1969 Tax Reform Act, private foundations are required to charitably disburse a minimum of 5% worth of their assets on an annual basis. To date, most have adhered closely to this number, largely because their founders mandated that they exist in perpetuity. However, a handful of foundations have taken a different approach - called spending down, or 'sunsetting' - such as the Rosenwald Fund and the John M. Olin Foundation. These foundations closed upon the death of the founder or soon after.

In recent years an increasing number of foundations are likewise 'giving while living,' and more experts are debating its merits, pushing the concept into the public sphere. According to the Sanford School of Public Policy at Duke University, 34 existing major foundations are projected to complete spend-downs by 2020, comprising nearly half of all spend-down foundations in the history of philanthropy. According to a 2009 study by the Foundation Center and Council on Foundations, the strongest predictor for spending down is whether the founder is living - "foundations with a living founder are three times more likely to expect to spend down than those whose founder is deceased and they are almost twice as likely to be undecided." The National Center for Family Philanthropy sheds some light on why founders may choose this route. It cites living founders' desire to control their own giving, a fear of burdening future generations not interested in grantmaking, and a guarantee that their mission will be honored.

A few key pieces of literature trace the arguments on both sides. In 2002 an op-ed in the New York Times by former U.S. Senator Bill Bradley and McKinsey director Paul Jansen ("Faster Charity") suggested that social sector needs were too great for foundations to save funds for the future. That article was itself based on an earlier McKinsey report by Jansen and others, which argued that the'time value of money' concept - if applied to charitable endowments - must compel foundations to lift payout above 5%.

In 2003, Stanford Law School professor Michael Klausner published a rebuttal of sorts, writing that giving for future generations was equally as valuable as giving for current ones (with the caveat that particular social goals, such as preserving open space, would necessitate giving now before opportunities become limited). Others have pointed out that spending down poses a particular challenge for worthy grantees which may have to scramble to secure future funding.

In the midst of this ongoing discussion, several larger and more influential foundations have committed to limiting their lifespans, including the Atlantic Philanthropies, which will cease grantmaking in 2016 and close doors in 2020, and the Gates Foundation, which hopes to give away its entire endowment (appx. $36 billion) within fifty years of the last of its founders' deaths. Warren Buffett's 2006 gift to the Gates Foundation (appx. $30 billion, in installments of $1.5 billion a year o be spent in the year given) also came with conditions to spend it quickly.

Social Impact – Social Change – Social Innovation. In 1970 the sociologist James Taylor defined social innovation as "new ways of doing things in order to meet social needs". Peter Drucker, perhaps more than any other influential thought leader on management science, wrote expansively and passionately on what he termed "The Age of Social Transformation" that identified the growing potential and creativity of private sector nonprofit organizations, among which foundations have been a lead actor. In the two decade TPI experience, many of the concepts and trends referenced in this paper have become more nuanced and in many cases creatively aggregated into new ideas and new practices. Foundations have been the primary support for these concepts, including those that bridge the nonprofit and for-profit domains, like social entrepreneurship, microcredit, and a wide variety of hybrid market-economy programs that aim to address social dilemmas. Venture Philanthropy and mission or impact investing by foundations are two examples.

"Venture" philanthropy. Venture philanthropy is roughly defined as applying concepts and techniques from venture capital finance to philanthropic initiatives. Similar to 'strategic' philanthropy, venture philanthropy is not necessarily a brand new idea; as early as the 1950s, foundations began describing their work as providing venture capital to fund projects too risky for government programs. However, the concept has vaulted forward in popularity in the last twenty years. Venture philanthropy is frequently characterized by a willingness to experiment and take (calculated) risk; a donor/grantee focus on measurement; investment of not only financial, but also intellectual and human capital; long-term funding, on average, 5-7 years; a focus on capacity building and general operating expenses versus grantee programs; higher involvement by the venture philanthropist (often including board service); and finally, an exit strategy when sustainability and scale have been achieved.

These attributes are seconded by Fleishman, who writes that venture philanthropists "especially insist on the use of formal strategy, the institution of metric-based performance benchmarking, and the attainment of sustainability through the diversification of revenue streams." Paul Brest traces the new movement to the San Francisco-based Roberts Enterprise Development Fund (or REDF), and its work in the 1990s under Jed Emerson. As REDF's first director, Emerson was one of the first philanthropists to invest in Bay-area social enterprises, such as cafes or bicycle repair shops employing recovering drug addicts or the formerly homeless. Both the social and financial effects of each grant (or loan, or equity investment) were measured carefully; Emerson coined the term blended value' to capture the total return on investment.

Other self-described 'VP' groups include Draper Richards Kaplan, which invests in early-stage nonprofits, and Acumen Fund, which invested $73 million in its first ten years in 65 enterprises serving the poor. Other VPs include Social Venture Partners, which couples its investments with professional advising; and New Profit, Inc. a fund that invests in high-impact nonprofits with the potential to scale solutions focusing on increased social mobility in America. The venture philanthropy concept has been especially attractive to young entrepreneurs, many of whom who have established foundations.

Closely linked to this movement has been an emphasis on capacity building as a foundation strategy. Foundations have typically preferred to make project or program specific grants as it makes it easier for them to attribute their grants to specific results and to believe that a specific program would not have occurred without their gift. The literature on venture philanthropy underscored the need to invest in "overhead" and/or "technical assistance" in order for a nonprofit to thrive. As a result, many foundations have launched capacity building programs that offer nonprofits opportunities to obtain consulting assistance, engage in leadership and training programs, and other initiatives to strengthen the organization.

Impact investing. Impact investing (sometimes also referred to as mission investing) involves the deployment of foundation resources, on either the program or endowment side, that seek to achieve both financial (ranging from return of capital to market rate) and social and/or environmental returns. There is a long history of examples of major foundation mission investing efforts in ousing and community development: Living Cities, Local Initiatives Support Corporation (LISC), Enterprise Foundation, the Corporation for Supportive Housing, and regional organizations like Boston Community Capital. Micro-credit is by far the best-known of the social investing adaptations and continues to go to scale worldwide.

While these concepts are not entirely new (in the 1960s, the Ford Foundation pioneered Program Related Investing, a taxed advantage vehicle for making concessionary investments out of endowment in pursuit of foundation mission) they have been propelled to the forefront in recent years, driven by a growing set of very wealthy – and often young – investors and a few foundations interested in a double bottom line approach. The Rockefeller Foundation has funded a large initiative aimed at building an impact investing infrastructure; its institutions, the Global Impact Investing Network (GIIN) and reporting standards (GIIRS) aim to bring much-needed clarity and standardization to the field. The comparatively small F.B. Heron Foundation captured headlines in 012 when it declared that it would deploy 100% of its endowment for mission. The previously entioned Omidyar Network has also been a pioneer in this space, choosing to make investments or grants as it sees fit.

According to a study by FSG Social Impact Advisors in 2007, mission investments' annual growth rate averaged 16.2% between 2002-2007, compared to 2.9% in the previous 32 years. Between 1997 and 2007, the number of foundations engaging in mission investing doubled; new funds invested annually have tripled. The study also claims that investments are diversifying, expanding from traditional, low-interest and low-risk loans, to a variety of debt and equity investments. A more recent Foundation Center study puts these findings in perspective. Its 2011 survey of 1200 foundations (including corporate, community and independent/private) found that only 14.1% of respondents were engaged in mission investing; half of those were solely engaged in program-related investments. A study financed by the financial institution J.P. Morgan estimates that the potential scale for this market – in just 5 sectors including housing, rural water delivery, maternal health, primary education and financial services – is $400b-$1 trillion over the next 10 years.

There are many important details missing from this conversation and a long distance to go before the infrastructure is in place to support a wide range of investment opportunities. Estimates on the potential size of the impact investment market vary by billions of dollars. The very definition of mission or impact investing is not standardized within the field. For example, is a so-called socially responsible investment also a mission investment? Is a high-risk investment in a startup medical device company, with the promise of enormous financial returns, an impact investment? What differentiates a foundation's impact investment from a regular asset manager's, and how does each add value (financial or social)? It is clear from this data and these questions that mission investing is still unchartered and untested territory for most foundations. It also illustrates a tendency in every field for the rhetoric around new ideas to often outdistance the reality of the practice of those ideas.

Collaboration and Collective Impact, Whole System Partnerships. Increasingly, foundations are tackling complex problems by collaborating with each other (and other stakeholders from government to nonprofits and business). To be sure, funders have been collaborating to some degree almost as long as philanthropy has existed. For example, The Synergos Institute, a New York based NGO founded by Peggy Dulany, has led two foundation-funded major multi-sector collaborations. One project seeks to create more sustainable food chains and has included eight of the world's largest agribusinesses including Unilever, and a host of government and NGO participants. Another project focuses on reducing child malnutrition in India with major participation by UNICEF, indigenous NGOS, and Unilever India.

Benefits to collaboration for foundations are many, including: access to pooled information and expertise; the opportunity to deploy new and bigger grantmaking strategies; the ability to leverage philanthropic resources; more efficient use of available resources; shared risk; and potential to chieve greater impact, including increased public attention to critical issues.

The strategic phenomenon of collective impact – a recognition that solving many intractable social problems necessitates the involvement of a community of actors, working in a mutually complementary way – was captured in a 2011 article from John Kania and Mark Kramer in the Stanford Social Innovation Review. The authors argue that approaches to certain large-scale problems have myriad gears, which must all move fluently for the solution to be achieved. If anyone gear is jammed, none of the others will be effective no matter how hard you push (or how much money you throw at it). Using the example of education, they write that "fixing one point on the education continuum - such as better after school programs - wouldn't make much difference unless all parts of the continuum improved at the same time."

Paul Schmitz elaborates on the idea further, writing that "traditionally, a nonprofit identifies an isolated need, creates a service for that need, demonstrates results, and scales their service to more people... Collective Impact instead begins with changing the community overall and works backward. It begins by setting a goal and then builds an ecosystem of nonprofits, government agencies, schools, businesses, philanthropists, faith communities, neighborhood groups, and community leaders who create common strategies and coordinate integrated activities among them to achieve the goal."

The most developed example of collective impact is the Cincinnati-based Strive initiative funded by the Knowledgeworks Foundation. Strive is leading a national network in 80 cities across the U.S. with the aim to help all kids succeed from 'cradle to career.' Collective impact is an exciting and complex concept that has yet to be proven, but it is an example of social innovation that would not exist without support from foundations.

Crowdfunding and Crowdsourcing. An innovative new approach to both civic engagement and grassroots fundraising has been demonstrated through the growing use of crowdfunding (small donations from many people) and crowdsourcing (ideas and help from many people). Crowdsourcing.org reports that about $1.5 billion was raised via crowdfunding in 2011, and the number of crowdfunding platforms (CFPs) was expected to increase from 452 in April 2012 to 530 in December of the same year. Different platforms are popping up to help organize and channel small, individual donations, including Global Giving, Catalyst and Indiegogo. The American Red Cross used Indiegogo and one other CFP to crowdfund as part of its Hurricane Sandy relief effort, with great success. Corporate foundations have also participated in the trend. The American Express Foundation (Amex) partnered with The National Trust for Historic Preservation to solicit public input (crowdsource) on which historic sites to support in selected cities. Under the arrangement, a committee picks a different city each year and 25 historic sites within it, then the public votes on where it wants the money to go. When the program started in 2006, Amex pledged $5.5 million over five years; the program has been so successful that they have given another $10 million to the effort.

At its best, crowdfunding and crowdsourcing represent the democratization of philanthropy. Expert Lucy Bernholz writes that, thanks to advances in mobile technology, "freelance fundraising for our own favorite causes or organizations will be easier. Crowd-sourced and -funded groups will clean beaches, feed the homeless, help the elderly, respond to disasters, all while not relying on or turning to an organization for help." But there are pitfalls. One is the risk that donor privacy will be compromised. Another is the fact that while giving may be easier for the donor, the recipient's administrative burden is not necessarily diminished. Finally, it remains to be seen whether crowdfunders have the 'staying power' to maintain giving levels over time.

Family Philanthropy. A new generation of wealth is spurring the creation of many more family foundations. Family foundations comprise more than half of all independent foundations according to the Foundation Center. The Center identifies some $20.6 billion in giving by family foundations in 2010 alone. However, the most compelling statistic may be the fact that fully one third of all family foundations have been established in the 2000s. Many family foundations are unstaffed, and more than three-fifths of family foundations have assets of less than $1 million.

This tremendous growth in family philanthropy has been spurred not just by increased wealth, but by a society-wide quest for greater meaning in our lives. Many leaders of the new family foundations come out of very successful business careers and see their philanthropy as an opportunity for a "second act" where they use a combination of financial, social and intellectual assets to make a difference in the community and create more meaning for themselves. Concerns over the impact of inherited wealth on the next generation have also been a factor. Intergenerational family foundation boards are becoming increasingly common, providing an opportunity for building family bonds, teaching younger generations about the responsibilities of wealth, and creating a family-wide legacy.

Global philanthropy. Our increasingly globalized and interconnected world is impacting philanthropy and private foundations in new and compelling ways. International grantmaking has increased dramatically in the last twenty years, growing at a faster rate than domestic giving. The increase can be partly attributed to heightened public awareness of global issues, the rapid growth in foundation assets and the proliferation of new foundations.

The landscape of global giving is also changing. This new map is defined by big demographic changes, shifts in cultural and social values, disruption of traditional power structures, and a renewed search for meaning.

Major demographic changes are occurring in family size (decreasing) and education level (increasing). Migration and new Diaspora communities – coupled with overall increased social mobility - is contributing to a dilution of indigenous cultures and a loss of place. Philanthropy may have a special role to play in the preservation of these historical cultures and communities.

Emerging trends around cultural and social values are being expressed through philanthropic efforts around the world. For example, a growing number of people and institutions are linking human choice with prosperity, and constraint with poverty. Philanthropy is in some sense a mirror of our values, and it will be interesting to see how this ideological shift to choice and freedom of individual expression will influence how, and where, we give.

Juxtaposed with this convergence of values is a moral, political, and cultural polarization which threatens stability and overall social progress. Around the globe, traditional power structures are being challenged. We have seen an up-ending of political institutions (Arab Spring), churches, corporations, civil society and NGOs, and in the world of philanthropy - private foundations. Fueling the unrest is a concentration of wealth leading to vast inequalities around the world, including the U.S. This is renewing questions about the responsibility government (and philanthropy) to serve the poor and equalize opportunities.

Tied to this is a search for meaning expressed through religion or through a new "secular spirituality" where individuals seek to find, or even create, a community based on social issues and a feeling of responsibility toward the next generation. This trend is visible in both the grand ambitions of the largest foundations, such as Gates' goal to eliminate malaria once and for all, and in the individual actions of citizens making micro-loans for projects thousands of miles from home. Social media and crowdfunding platforms are aggregators for this movement. [6]

⑥ *Adapted from "New Dimensions in Social Change and the Role of Corporate Philanthropy," by Peter Karoff presented at the 2012 Corporate Philanthropy Institute, Northern California Grantmakers.*