The 21st Century Foundation:

Building Upon the Past, Creating for the Future

By

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Introduction[1]

Philanthropy can be an incredible tool in support of a transformed world—and we may certainly point to individual foundation successes in the past that *have* changed our world. Yet, too many of those involved with foundation management today settle for common, existing practice as our highest standard of performance. These foundations view good philanthropy as a function of financial asset size or number of grants awarded as opposed to direct impact of foundation strategy or overall value creation from those assets (broadly defined).

There is great diversity present within the foundation community and risk in making general statements regarding "philanthropy." The following comments are offered with real awareness of how great the foundation community can be. However, it is difficult not to conclude that the vast majority of foundations, (both smaller non-staffed family foundations and massively staffed institutional foundations alike), function as if grant making were the main task with which we are charged. Popular rhetoric aside, most foundations don't even begin to advance a unified strategy for putting *all* their assets into play and gaining the greatest possible leverage from those assets.

Many foundations have had significant impact—however, if we collectively continue to focus upon the grant making aspect of our work alone, we will remain stuck in first gear.

This past year's debate with regard to foundation payout rates is a good case in point. Payout is an important issue, however the question of whether payout is five percent or seven percent pales to irrelevance when one considers the fact that US-based foundation grantmaking represents less then 3% of the capital flows in the nonprofit sector.[2] In the same way that poor people cannot spend their way out of poverty,[3] foundations cannot simply fund their way to success in the nonprofit sector—much less use grant making strategies alone to confront the complex problems of our larger society and world. Payout is not the problem!

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[1]Ideas and themes presented in this paper draw from a number of other papers produced by Jed Emerson, and are informed by others in the field of philanthropy. The reader is free to make reference to any of the ideas presented herein, but is also asked to reference this paper and respect the copyrights of its author.

[2] *"Money Matters: The Structure, Operations and Challenges of Nonprofit Funding,"* by Jed Emerson and Paul Carttar, published by the Bridgespan Group, January 2003.

[3] For years American public policy supported a "cash-based" approached to family poverty programs whereby the focus was on welfare and other wealth transfer systems. With the stunning success of micro-enterprise, land-based asset development strategies such as those advocated by Henry De Soto, and our own country's tentative success with welfare reform programs, it is clear we need be investing in the development of individual assets (both human and financial) in addition to meeting the needs of very low-income families for monthly cash support…thereby the idea that one cannot spend one's way out of a hole. Please see http://www.assetbuilding.org/AssetBuilding/ for more on these ideas.

There will always be a need within any effective philanthropic approach for the support of emergency and one-time grants to individuals and organizations in need. Yet, the reality is that perceived and real needs will always outstrip our capacity for making grants. An ongoing focus upon issues of payout, spend down of corpus and effective grantmaking all reflect an orientation to philanthropy that is fundamentally "transactive" (i.e. how to best manage assets to support future grant making activities). This focus will always fall short of the true, long-term impact potential of "investment" approaches to philanthropy (based upon leveraging greater sets of assets in favor of long-term investments in organizations, communities and fields of work in which we hope to develop real, *transformational* impact and sustainable value over time).[4]

What is needed is much more than simply effective grant making practice or notions of mission related investing alone (although consideration of those ideas would clearly be a part of the overall approach).

The best foundation strategy must seek to identify an institution's full array of available assets (both financial and non-financial) and assertively deploy those assets in support of its institutional mission and those of the organizations whose work the foundation seeks to advance.

This paper presents what critical aspects of 21st Century philanthropy might entail.

Core Elements of the 21st Century Foundation

Let me be the first to say that in many ways what I envision is not altogether "new" but rather a re-configuration of existing approaches with a greater emphasis upon creating and executing a unified approach to philanthropic practice. I would acknowledge that there are many who share this analysis and commitment to improving the field of philanthropy. For example, "*From Grantmaker to Leader: Emerging Strategies for 21st Century Foundations,"* edited by Frank Ellsworth and Joe Lumarda, is one of the best compilations of many of these issues. And, again, there are any number of foundations that engage in one or more of the following elements of strategy. However, we should also acknowledge that there are precious few foundations that intentionally seek to engage all six of the core elements presented below.

[4] For an extended discussion of transactive versus investment philanthropy, please see "*The Nature of Returns: A Social Capital Markets Inquiry into Elements of Investment and the Blended Value Proposition,"* Social Enterprise Series Working Paper Number 17, Harvard Business School, 2000.

I am reminded of the words of an east coast foundation trustee who, when commenting upon the arrogance of the "new" philanthropists, told me that "good philanthropy has *always* been about finding solid visionaries and investing in them." I could not agree more! However, while that may be true, the fact of the matter is that much of our community's current practice does little to advance that core premise of good philanthropy. What is different about 21st Century philanthropy is the conscious application of *all* our assets in pursuit of creating not simply a good grant making institution, but an institution that maximizes its full value potential and those of its partnering organizations.

With these thoughts in mind, I would suggest there are six core elements of the 21st Century foundation:

1. Asset Alignment
2. Strategic Grantmaking Practice
3. Engagement, Transparency, Accountability to Stakeholders
4. Development and Dissemination of Intellectual Capital
5. Engagement in Education, Policy Development and Advocacy
6. Leverage of Environmental Value

Let me briefly address each of these in turn.

- ❖ Asset Alignment

The first, and in many ways most important, consideration for the 21st Century foundation is a commitment to achieving asset alignment in pursuit of institutional mission. Instead of viewing itself as a grantmaking institution, the foundation understands itself to be an *investor* in value creation—an investor with access to an array of assets it may leverage toward achieving its goals. Some of these assets are described below, but they should be understood as falling into general asset categories of (at a minimum): grant assets, human assets, intellectual assets, political assets and financial assets.[5]

Simply put, the core idea of asset alignment is that any foundation must assess its total complement of assets, how those assets are defined and managed, and how they may be nurtured and invested in order to achieve the highest degrees of leverage, impact and value creation.

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[5] These are explored at length in my paper, *"An Essay in Two Parts: Total Foundation Asset Management—Exploring Elements of Engagement Within Philanthropic Practice."*

Many foundation assets lie dormant (intellectual, political, etc.), but perhaps the most neglected is that of foundation financial assets (commonly referred to as its corpus). I have published several papers and articles on this topic,[6] so will only make the following two points.

First, the sole purpose of foundations is to advance some form of social or common good. While they are created through personal or corporate wealth, the tax advantages and nonprofit status foundations receive mandate they be managed with regard for broader benefit. Despite this fact, the majority of foundations only put their 5% payout to use in pursuit of their mission, while 95% of their financial assets are managed by professionals with the singular goal of achieving financial (not social or environmental) value and returns. Setting aside the reality that many foundations are actually investing in companies that may be directly contributing to the very problems their 5% grants budget is attempting to address, what this means is that *95% of their assets do nothing to advance the larger institutional mission of these foundations*.

Second, I am not advocating that a foundation's entire corpus be invested in socially responsible investment funds (although some allocation into such funds should be considered), but rather that the funds in the corpus be leveraged in a manner that protects those funds for future use while at the same time makes those funds available today for more effective support of the foundation's mission.

For example, the innovative foundation would be one that explored how some of its financial resources might be used to support the issuance/purchase of nonprofit bond offerings that could assist organizations in diversifying their capital structure. The innovative foundation would work to "buy out" paper from the nation's community development loan funds—thereby helping increase liquidity of such funds. The innovative foundation would sit down with representatives of the Nonprofit Finance Fund, design a capital finance strategy for the sector (at a minimum, its own portfolio of grantees!) and work to secure adequate capital to execute that strategy. Or the innovative foundation could identify quality organizations it could offer financial guarantees to assist in securing longer or better term debt. Each of these ideas is simply one part of an overall exploration of how foundations could use their financial resources to not simply "make grants," but expand the capital options and reach of the sector as a whole.

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[6] Please see the following papers/articles: *"Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming,"* Stanford Social Innovation Review, Summer 2003; "*A Capital Idea: Total Foundation Asset Management and the Unified Investment Theory,*" Working Paper released January 2003; *"Horse Manure and Grantmaking,"* Foundation News and Commentary, May/June 2002; and the previously cited, *"An Essay in Two Parts: Total Foundation Asset Management—Exploring Elements of Engagement Within Philanthropic Practice."*

The F.B. Heron, Ford, Rockefeller, Noyes, Needmore and Rose Foundations have each put some of these ideas into practice—that more foundations have not at least explored these options in a more assertive manner indicates that most foundations are looking to the practices of the past as opposed to those of the future.

Returning to the general challenge of achieving asset alignment for all forms of foundation assets under management, many foundations attempt to maximize the impact of their grantmaking; other foundations assist their staff in developing their skills in managing that grantmaking practice; some foundations attempt to position their grants in alignment with their financial investments (through mission related investing, offering of PRIs/IRPs and so forth); still others explore how their grants, staffing expertise and knowledge of a field can be leveraged to achieve changes in public policy—yet precious few foundations step back from their work to design and advance a *comprehensive* strategy of asset mobilization to ensure all their resources and capacities are indeed aligned in pursuit of their ultimate mission.

Doing so is a definitive aspect of 21st Century philanthropy.

- Strategic Philanthropic Practice

While "making good grants" is a real concern, moving beyond grants to strategic philanthropy offers the promise of "finding systemic solutions to underlying causes of poverty and social ills."[7] While some new to philanthropy may believe the concept of strategic philanthropy is also new, in truth the idea of taking a strategic approach to philanthropy has been a concern of visionary philanthropists since the early days. What has, perhaps, shifted is our overall understanding of strategic practice within philanthropy and the array of planning, performance evaluation and related tools available to assist us in the management of our strategic planning and management process.

There are a variety of approaches to "strategic philanthropy," but they all include an intentional, long-term process of investing one's grants in organizations in such a manner as to build long-term capacity and achieving sustainable impact upon any given issue of concern. The foundation must also, therefore, operate within a defined theory of change and assist its grantees in doing so as well. This will help ensure resources of both the grantmaking institution and those of the investees are structured with the greatest degree of alignment possible in order to have the greatest promise of successfully attaining the desired impacts.

[7] Paul Ylvsaker, as quoted in *"From Grantmaker to Leader: Emerging Strategies for 21st Century Foundations,"* edited by Frank Ellsworth and Joe Lumarda, page 206.

Regardless of the specifics of any final approach taken to the creation of a strategic philanthropic practice, the 21st Century foundation is one which can clearly enunciate its strategy and seeks to apply that strategy through truly entrepreneurial management (since, as we all know, where one begins will not be where one concludes, so we must have the capacity to "innovate on the fly" based on increasing understanding that will come over years of applying our strategy in practice).

- Engagement, Transparency, Accountability to Stakeholders

While there are no doubt times when "stealth and secrecy" are appropriate to the philanthropic process, as a general rule the 21st Century foundation is one that recognizes its obligations go well beyond those of grantor to grantee. As both the perceived and real "scandals" of the past couple of years have shown,[8] if foundation leaders believe they may quietly go about their work and be lauded for their efforts at "do-gooding," they are sorely mistaken. What both donors and foundation managers often seem to forget is that while foundation funds may have originated as a result of private enterprise, the foundation is a legal entity created to advance the public good.

Therefore, every foundation should have a clearly considered and publicly understood approach to engaging outside stakeholders, the degree to which it will seek to make its decision-making and strategic considerations publicly known, and how (and to what extent) it will hold itself accountable to those outside the foundation for its own performance.

Performance metrics and evaluation become an important part of any discussion of accountability. The "twist" I would put on that discussion is the notion that in addition to investing in nonprofit organizations' social management information systems,[9] the 21st Century foundation will also work to implement its *own* performance metrics and public evaluation process. Components of this strategy would differ for various foundations, but could include such things as an annual stakeholders meeting, 360-degree foundation evaluations (which could include using grantee surveys such as those developed by the Center for Effective Philanthropy which poll grantees on foundation performance issues), a

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[8] Generally speaking, I would cite such issues as the questions raised with regard to the Irvine Foundation's compensation policies for its former president, instances of self-dealing recently reported by the Boston Globe, incidents reported in *"Who's Minding the Till?,"* (U.S. News and World Report, December 8, 2003, pages 60,62), and overall confusion in the public's mind with regard to the role and function of philanthropy has also contributed to very basic questions being raised by members of Congress and others.

[9] My article, *"Mutual Accountability and the Wisdom of Frank Capra,"* (Foundation News and Commentary, March/April 2001) presents an overview of the concept of social management information systems as well as my notions of "mutual accountability."

Social Return on Investment[10] analysis to assess the social value created through the application of foundation grants and financial assets, and any number of other tools to document the value creation of any given foundation and serve to engage stakeholders in discussions of overall foundation performance.

Engagement of outside stakeholders is one part of good governance, but there is an even more important rationale for a commitment to engagement and accountability: Engagement of outside stakeholders is one way in which we may more effectively participate *with* those stakeholders in advancing our overall agenda. Receiving feedback and even having debates with our stakeholders helps provide us with a platform to better advance our ideals and vision. An excellent example of this was Paul Brest's entering the public debate against those advocating for an increase in foundation payout. While I did not agree with Paul's position on this question, his approach to the public discussion was excellent and a good example of one level of connecting with stakeholders as part of a strategy to advance the Hewlett Foundation's institutional vision of philanthropy.

- ❖ Development and Dissemination of Intellectual Capital

For some foundations, simply making the grant is success. For the 21st Century foundation, by contrast, there is a profound realization that grants also allow practitioners and funders alike to develop deeper understanding of issues and questions of concern to society at large. Therefore, a clearly defined and well-executed strategy for the cultivation and dissemination of intellectual capital becomes critical to the long-term success of the foundation's efforts. It is important to note that while this may be part of an effective communications strategy, it is much more than the standard approach to "PR" taken by many donors and foundations. Development and dissemination of intellectual capital represents a commitment on the part of the foundation to fully participate in helping build the actual knowledge base of a given field of work in which the foundation has chosen to invest.

The foundation should also understand that the creation of this intellectual capital, while a real outcome of the grant making process, must also be *separately supported* by the foundation if it is to be effectively leveraged. It would be naïve to expect that through "year-end reports" and other means of documenting their work grantees and foundation staff will be able to adequately reflect upon the learnings and implications of their activities. A distinct strategy needs to be created in partnership with funded organizations, staff and outside stakeholders

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[10] Please see SROI materials at www.redf.org, developed while I was executive director of the Fund.

(such as academic institutions) in order to ensure a meaningful and adequately resourced effort is made to cultivate and disseminate the intellectual capital that will result from a strategic grantmaking practice.

The value of this approach was really drilled home for me while head of the Roberts Enterprise Development Fund. REDF's budget averaged $3 million in grants annually—limited to a small portfolio of Bay Area-based nonprofits, yet our impact on discussions of social enterprise, philanthropy and performance metrics went well beyond what one might expect of such a modest grants budget. We achieved this due to a clear and assertive strategy of supporting research and writing by both our grantees and foundation staff. This strategy resulted in our work being known and applied by those across the United States and overseas. This is but one of many examples of how a foundation can cultivate and disseminate knowledge as a major contribution to a field of practice well beyond what a grant making strategy alone would have allowed.

- Engagement in Education, Policy Development and Advocacy

Intellectual capital could be thought of as informing the work of a field of practice, however it is upon intellectual capital that one may then act to engage in broader efforts of public education, policy development and advocacy. To its detriment, some in the foundation community have sought to avoid our obligation to advance a public policy agenda, yet it is a key aspect of responsible foundation practice. Since, as previously stated, foundation grantmaking represents less than 3% of total capital flows within the nonprofit sector,[11] it is clear our community's overall contribution to positive change is not our grantmaking, but rather the knowledge and innovation that comes as a result of our grantmaking that may then be transferred to the benefit of others. This transfer takes place through the process of general public education efforts as well as our working to inform public policy and governmental funding decisions as a result of the experience of our grantees and ourselves.

For foundations to shirk from this duty is not only a shame, but also an abdication of our responsibility. Foundations such as the Pew, Kaiser, Bradley and Heritage Foundations have all made extremely effective use of public policy strategies to advance not only the interests of their stakeholders, but our larger society. One may disagree with the specific policy agenda of any given foundation (these or others), but these foundations are models of how to create and execute an effective public policy agenda. All foundations, regardless of size, should seek to include an assertive public policy strategy in their approach to philanthropy.

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[11] *"Money Matters: The Structure, Operations and Challenges of Nonprofit Funding,"* by Jed Emerson and Paul Carttar, published by the Bridgespan Group, January 2003.

❖ Leverage of Environmental Value: Integrating Strategies of People and Planet

Perhaps there was a time one hundred years ago when philanthropic institutions could consider their "social" grant making agenda separately from "environmental" issues, but no more. With species extinction, global warming and eco-system breakdown, it makes no sense to fund strategies targeting human communities in the absence of considering the environmental context within which those communities exist. Does this mean that all foundations must have an environmental grants program? Of course not! Does this mean all foundations must function with consideration of their environmental footprint? Naturally!

There are any number of creative ways foundations can support the natural environment while maintaining their focus upon social issues:

- Foundations should purchase only 100% post consumer recycled paper products for use both internally and for external reports.
- Foundations that require personnel or grantees to travel should budget funds to allow for offsetting carbon unit credit purchases, such as through supporting groups planting trees in significant amounts to compensate for pollution produced as a result of travel activities of foundation staff.
- Foundations funding affordable housing or related development projects should offer a "planet premium" to allow grantees to purchase wood harvested in accordance with sustainable yield practices—better yet, those involved in community development should work with timber industry representatives to create direct purchasing markets for sustainable yield timber, thereby decreasing purchasing costs and increasing market demand.
- Foundations should ask that all grantees consider the environmental aspects of their "social" issue. Discussions between the foundation and grantee should address ideas with regard to how to leverage activities that will be of benefit to both people and planet—the foundation should then support those efforts as a complementary component to their core grant.

Other resources address this issue,[12] but the basic point remains:

To target the needs of people in the absence of planet will leave our world's societies standing upon a dry cinder. The 21st Century foundation seeks to maximize its full value and impact by taking into account its environmental footprint and that of its investees.

[12] See www.ega.org

Next Steps: What will it take to execute this strategy?

It would be easy to argue that what is presented in these pages is much too aggressive a vision for philanthropy and that while many foundations may apply one or more of the core elements, it would be too much to ask any single foundation to attempt to apply all six. Yes, it would be easy for a reader to reach that conclusion and yet in doing so the reader would be wrong. Implementation will look different for different donors and philanthropies, but each of the following are opportunities to place the full complement of the 21st Century foundation into practice:

- A start-up foundation, looking to lay the ground work for long-term success and interested in approaching its development with a strategic, multi-year framework to maximize its impact over time;
- An established foundation interested in re-inventing both its philosophy and approach—A foundation that, having done well in its previous approach, is now looking to drill deeper into exploring its work and potential for maximizing its full value;
- Two or three foundations interested in pooling resources to create a new, model foundation and with the willingness to invest significant resources in true experimentation and innovation;
- A major program area within an existing foundation seeking to re-tool itself in pursuit of a new vision of philanthropy.

Indeed, what is presented in the previous pages is an overall vision of foundation strategy that could be explored and put into practice by any number of foundations interested in any variety of issue areas (education, youth, environment, cultural arts, and so forth).

The real challenge is not whether it can be done, but whether existing donors and trustees are willing to build upon the innovation of the past in order to create the successes of the future. The 21st Century foundation does not only seek to respond to the problems of our time, but to get ahead of those problems by implementing strategies that apply all that we have in efforts to capture all we have the promise to be.