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## **The Currency of Change**

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## **The currency of change**

Lucy Bernholz and Gabriel Kasper

Philanthropy is big business. Recent growth in the number, assets, and types of foundations is unprecedented. Traditional private, corporate, and community foundations have been joined by new vehicles such as venture groups, charitable gift funds, and donor circles. Coupled with a rapidly expanding secondary market of organizations — research centers, affinity groups, industry associations, consulting groups, investment managers, and technology firms serving and supporting foundations — the growth is contributing to what amounts to a transformation of philanthropy. Understanding how these new and established philanthropic players interrelate — as an industry — will help us to consider issues of shared purpose, accountability, added value, and knowledge assets in institutional giving.

If we define an industry as a set of companies that produce highly substitutable products or services, then all financial vehicles for making tax-deductible contributions fall into the philanthropic industry, from charitable gift funds to independent foundations, private banks, corporate giving programs, and social donor networks. Each of these vehicles has a unique set of characteristics from the perspective of tax and estate planning, yet they are all “firms” in the same business of giving away money.

But as an industry unbounded by the typical financial returns or electoral results to account for performance, the philanthropic industry operates with an unusual opportunity for networks, alliances, and joint ventures. While the recent expansion of the field provides an increasing base of experience for evaluation and understanding, the very extent of the enterprise threatens to isolate foundations from the accumulated learning, knowledge, and innovation of their peers. New foundations often find themselves reinventing the wheel, while established institutions may fail to capitalize on the fresh ideas of inventive newcomers. If philanthropy as an industry is to maximize its impact, it will need to develop new strategies and structures for knowledge sharing, communication, and cooperation.

Models such as university research and the high growth years of Silicon Valley provide useful precedents for thinking about how this might happen. Tenure-track professors at universities, insulated from economic competition for their positions (much as foundations are ‘built to last’ in perpetuity by their endowments), compete to advance ideas and theories, building their names and reputations not on proprietary development, but on their contributions to the field. This commitment to the advancement of knowledge fosters a system where the exchange of ideas within and between institutions and the development of collaborative networks are the key to promoting a collective innovation that goes beyond the capacity of any single constituent institution.

Similarly, industrial researchers credit a shared commitment to networks and collective progress as a key factor in the success of Silicon Valley. When compared to other regions of high-tech development, Silicon Valley companies have engaged much more frequently in joint ventures, cross-licensing of patents, and the development of formal and informal networks between firms and employees. This collaboration ensures that technical advances spread rapidly and that whole industries grew as a predicate to the success of individual firms.

These two models show the power of sharing research, joint ventures, and licensing ideas across institutions. The solutions to complex scientific problems often require the resources from many academic institutions, just as the creation of viable new markets for silicon chips takes the product development assets of several companies.

What makes both of these models work is the use of knowledge as the primary currency of exchange within the industry. Sharing knowledge begets new knowledge, and when applied

collaboratively, the advances of individual organizations build on one another to advance the goals of the whole industry, as well as benefiting its constituent members.

Foundations should take heed of this. Many foundations are driven by missions to address complex social problems that their own financial resources, while often large, are never enough to solve. Unfettered by the profit motive, foundations have the opportunity to develop a new model for cooperating and sharing knowledge around these issues that will leverage their individual financial investments. Foundations can distinguish and differentiate themselves not just by how much money they give, but by how the knowledge they develop and share contributes to achieving common social goals. Doing so will not only increase the collective impact of the industry on pressing societal issues, but will also help to define niches, track added value, develop individual foundation identities, and increase accountability within the industry.

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