



The Industry of Philanthropy: Highlights from Key Industry Analyses

Blueprint's work focuses on research and strategy design for grant makers and industry analysis on philanthropy. These excerpts are drawn from Blueprint publications and highlight Lucy Bernholz's analyses of the philanthropic industry. They discuss the key trends we see shaping the industry over the next 15 years, the industry-wide changes that are possible, the role that knowledge sharing and investing can play in philanthropy, the opportunities for new ways of working together, and the unique characteristics of philanthropic activity that can position it to be a far more effective player in addressing social needs on a global scale and in partnerships with the public and private sector.

The publications are excerpted and organized to provide a quick introduction and guide the reader through the various issues in a logical and coherent matter. The topical outline for this memo and its excerpts follows:

1. Philanthropy as an industry
2. Key trends and issues for philanthropy
3. The opportunity to evolve
4. Multiple choices
5. The role of knowledge
6. Complementary strategies
7. Toward more organized philanthropic capital

In some cases, several publications are excerpted for the sections above. In each section, the source publication is referenced for your convenience. Almost all* of these publications are available for free on our website, www.blueprintrd.com, and we invite you to download full copies of any that interest you. Please note that all of the material contained in this memo is copyrighted by Lucy Bernholz and Blueprint Research & Design, Inc. and can be used with the proper permissions and acknowledgements.

Please note, the original text of each excerpt has not been altered. Many of the references are to foundations, however, the implications and meanings for you can be extrapolated by replacing that term with the philanthropic description that best fits you.

* Some publications are not yet public and therefore are not on our website. The reference information for these is provided along with the expected date of release. Please contact Blueprint for advance copies of any publications that may not have been released yet.

1. Philanthropy as an industry

From: *New Strategies for New Futures: Moving American Philanthropy Forward*, to be released by the Charles Stewart Mott Foundation, Fall 2002.

“This paper views philanthropy as an industry. It uses industrial analysis as a framework for considering how philanthropy operates now and how changes in the future may shape that work. The core components of this framework include:

- firms, markets, and customers
- products and services
- competition and alliances
- regulation and public policy
- media attention and public awareness¹

There are several reasons to use an industrial framework in considering philanthropy. First, the increased role of commercial firms offering charity-related products has drastically affected the role that competitive markets plays in philanthropic decision-making. Second, as in most competitive markets, there are many players in philanthropic giving—individuals; financial service firms; private, community, and corporate foundations; giving circles; professional advisers (accountants, attorneys, and investment professionals); and estate planning and fundraising professionals. Third, these competitors are struggling to differentiate themselves, working together in alliances, choosing between similar products, and all governed to a greater or lesser extent by regulation. Fourth, a conceptual framework is necessary to hold together these disparate pieces as we try to project forward in time. Against the framework, we can check assumptions and look for ways in which the future might influence philanthropic action.

The terms used most frequently to describe philanthropy and nonprofits are “field” and “sector.” These terms deliberately downplay the role of competition between agents while simultaneously implying a greater degree of like-mindedness and homogeneity than truly exists. The industrial framework captures the degree to which the “kitchen table family foundation” and the multibillion-dollar organization with hundreds of professional staff are in the same business, just as the local bookstore is in the same line of work as Amazon. The framework makes it possible to see the extent to which most entities in philanthropy are focused more on their own activity than on the overall structure or direction of their peer institutions.

The parallels between the philanthropic industry today and the role of individuals in the stock markets over the last twenty years are compelling. If we consider the commodification and mass marketing of stocks and bond mutual funds over the last two decades, we find a potential analogy for what is currently driving change in the philanthropic market. Starting in the late 1970s, new tax laws, new rules about pensions, and new retirement savings vehicles (IRAs and 401(k) plans) led to a massive increase in the percentage of Americans participating in the stock market. The amount Americans invested in mutual funds rose from \$49 billion to more than \$100 billion from 1980 to 1995. This growth pattern set the stage for the stock market boom that followed, the IPO craze, and the “new economy.”

In a parallel fashion, we have seen the number of philanthropic foundations double between 1980 and 2000; the number and types of philanthropic giving vehicles grow rapidly as seen in the rise of donor-advised funds (DAFs) and online resources such as the Virtual Foundation; and a boom in the numbers of philanthropic experts, advising resources, and university-based research centers.² Just as companies encourage employees to invest in the stock market through their 401(k) plans, they also encourage employees to be philanthropic. Although this has long taken the form of workplace giving campaigns and employee community service days, the last few years have seen the rise of company-sponsored philanthropic advisers at Cisco Systems; the promotion of community investment plans at Charles Schwab and Company; and the creation of stand-alone foundations dedicated to corporate giving, such as the Entrepreneurs Foundation. Armed with more-sophisticated communications technology and marketing techniques, the Calvert Funds and Social Venture Partners are just the latest example of aggregating and sharing philanthropic services across small donors just as Schwab and e*Trade were able to do with small investors.

How closely the next ten to twenty years of philanthropic activity will mirror the changes underway in American stock investing and retirement account management is pure speculation. However, the recent similarities between the two industries certainly suggest that it might be useful for the philanthropic industry to monitor the far more heavily regulated and understood world of investments, mutual funds, and retirement plan sales.

The elements of the industry framework that are central to our analysis are outlined in greater detail below:

Firms, markets, and customers

Firms in the philanthropic industry include all those who provide or advise charitable giving opportunities. Twenty years ago this would have included foundations, community foundations, community endowments, nonprofit organizations with established donor services and planned giving opportunities, fundraising professionals, banks, and trusts. In 2002, the landscape of firms in the industry includes the above list plus financial services firms, mutual fund companies, independent DAFs, independent consulting firms, professional advisory services, and e-commerce companies that provide internet technology to manage or assist in fundraising. The marketplace has become increasingly crowded and diversified. The traditional customers for most of these firms have been individuals with high net worth. One result of the increased activity in the market is that customers with lower net worth are increasingly sought after as target customers, expanding the reach of the market.

Products and services

The primary product line being offered in this industry is a tax-exempt structure for giving funds. The range of options includes direct gifts of cash or equities to a nonprofit organization, charitable trusts, private foundations, DAFs, supporting organizations, and semi-restricted or unrestricted gifts to community foundations or endowments.

The services offered by firms in this industry include investment management, educational opportunities, reporting to regulatory bodies, grants management, advisory services regarding the structuring of philanthropic gifts, independent research and analysis, and management consulting.

Competition and alliances

One of the most persistent mischaracterizations of this industry is that because it is not-for-profit it is also free of competition. As commercial firms have entered the market for charitable giving options, the role of competition has become clearer. Individual philanthropists have several options for managing their giving. From the standpoint of these donors, the options are in competition with each other. More and more frequently, donors are choosing several options and expecting to derive different benefits from each.³

Although community foundations and financial services firms may be in competition for managing the assets of charitable individuals, there is also an increasing willingness to form alliances between foundations and other giving vehicles. Several financial services firms work with large numbers of community foundations. Private foundations often work with community endowments and foundations. Alliances of private, corporate, and community foundations are nurturing several giving circles around the country. Driving some of these alliances are the recognition that no single entity has the assets to address its core issues alone, increasing opportunities for partnership caused by new pockets of philanthropic density, and individuals' involvement with several vehicles at once.

Regulation and public policy

Federal and state tax laws regulate charitable giving. Secretaries of state, attorneys general, and departments of corporations oversee foundations and nonprofit organizations. Individual giving is subject to regulations regarding tax deductibility. For institutional giving, additional regulations require public reporting and influence the roles that tax-exempt organizations can play regarding political advocacy and lobbying.

The different firms competing in the charitable giving market do not share the same interests vis-à-vis tax policy and regulation. This results in conflicting activity on public policy regarding the oversight of the industry. For example, community foundations and private foundations have different opinions on the excise tax levy that applies to private foundations. Community foundations and commercial financial service firms also have taken different stances on the regulation and oversight of DAFs. The disparate preferences result in several sub-industry appeals to regulators and limit the industry's ability to speak with one voice. In general, the industry has tended to be reactionary to public policy rather than pro-active in working with regulators.

Media attention and public awareness

General public awareness of philanthropy is on the rise. The late 1990s economic boom led many general interest newspapers and magazines to profile individuals with high net worth and their philanthropy. In addition, foundations and individual givers have become more proactive in communicating with the public about their work. The competition for donors has led to broad advertising campaigns by commercial services firms and community foundations. Finally, the large-scale scandals that placed philanthropic and nonprofit entities in the news in the past have been rare recently, and the attention to charitable giving and nonprofit decision-making following the tragedies of September 11th has kept philanthropic issues in the headlines for months.

Heightened public awareness and media attention is important context for considering the industry as it moves forward. It may play out many ways. A greater general awareness may lead to infusions of funds into philanthropy that might not have otherwise occurred. But scandals in philanthropy will play out in more public venues, and changes in regulatory oversight will draw greater public attention.

The industrial framework does not fit philanthropy perfectly. For example, although some of the charitable fund providers are driven by profit motives, most are not. This changes the issues of barriers to entry and exit within the industry. Most philanthropic entities are not driven by profits. Because many are bolstered by permanent endowments the issue of going out of business or leaving the industry is quite different than in a commercial environment. This quality affects the industry growth rates over time. Though the framework is not perfect, it helps us to consider the potential effects of foreseeable future changes on philanthropy in ways that stand stronger than mere speculation. It also allows us to bring into one picture the rapidly changing and disparate elements of firms, products, services, customers, competition, and regulation.

The conceptual framework of an industry of philanthropy is a means to an end not an end in itself. As we will see in examining the major drivers of change over the next decade, the industrial framework allows us to pinpoint ourselves in the current landscape, fix our gaze on the horizon, and identify tangible actions foundations can take to spur movement toward a stronger nonprofit and philanthropic enterprise.”

2. Key trends and issues for philanthropy

From: *Foundations for the Future*, Los Angeles, CA: University of Southern California, 1999 and *New Strategies for New Futures*, 2002

An Overview of the Drivers of Change

A number of significant trends are driving change in the philanthropic sector as a whole, and in the foundation sphere specifically. The first is the growth of the sector due to the creation of new wealth, the intergenerational transfer of wealth, and the birth of 'conversion foundations' from formerly nonprofit organizations. At the projected rate of growth, the foundation sector stands to double within the next decade. The second trend is the rocketing availability of new tools and services to facilitate philanthropy, including the advent of ephilanthropy and the explosion of charitable management by financial services firms. The third trend relates to business as a metaphor and a sphere of influence: philanthropy will be profoundly altered by the culture of entrepreneurship that now characterizes the American economy, especially the high technology sector. A fourth important force comes from changes in the nation's demographic base, including several states where whites will soon become minority populations, the role of second and third generation professional women, and the growth of the elderly population. Changes in public funding practices, primarily the devolution of funding and decision-making from the federal government to state and local jurisdictions constitute the fifth source of change. The sixth and final trend is the growing public awareness of philanthropy, largely a byproduct of the growth in the sector, but due also to increased media savvy by the foundations themselves and heavy media attention to the 'conversion' foundations.

These trends have numerous implications for the field of philanthropy. The exponential growth of the sector has produced an era of affiliation and association, with foundations aligned in a crazy quilt of common characteristics ranging from geography, to interest areas, to demographic identities. Individual giving, which has always dwarfed institutional philanthropy, is the target market for ephilanthropy, and a force that harbors changes for institutional givers as well. There has been significant growth in internet-based giving, and Internet services for nonprofits, donors, and foundations.

Changes in the private sector are having a significant impact on the philanthropic community. Community foundations are being spurred to change by the growing number of charitable management services in the private financial sector, which utilize many of the tools of the online world. The emergence of social entrepreneurs, who exist because of the implication that government and philanthropic models are predestined to fail, challenges many traditional operating assumptions of foundations. Venture philanthropy has extended one model of corporate success to philanthropy. Public grantmaking charities are emerging in many forms, with some organized by geographic community, some by interest areas, and some by like-mindedness of their donors.

A number of macro-level, demographic forces are redefining who is participating in philanthropy, and where they live. The diversity of people participating in philanthropic institutions has increased, with some groups such as women and young people benefiting more from efforts to diversify than others, including people of color. There has also been a democratization of philanthropy, with new philanthropic tools and benefits opening doors to people of lesser means than traditional philanthropists. In addition, the geographic center of philanthropy is shifting: in

1998 California supplanted New York as the home to the greatest number of ‘start up’ foundations. Finally, the rise of public-private partnerships and the blurring of the lines which traditionally separated the public, private, and nonprofit sectors challenge philanthropy’s operating principles.”

From *New Strategies for New Futures*

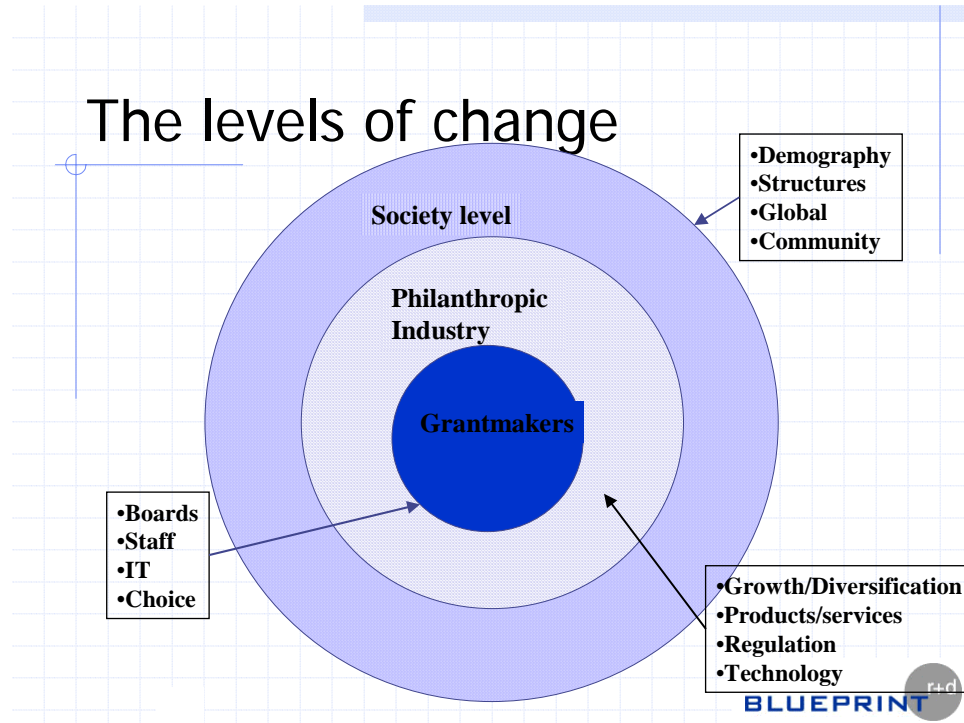
This paper focuses on three levels of change drivers: Society, industry, and organizational. In this 2002 review, the key society level change drivers are:

Demographics: particularly the aging of the population and increases in communities of color. Important characteristics about mobility, urban centers, and migration patterns are discussed.

New Ways of Working: networked organizations, temporal alliances, and longer professional lives with many more career changes per individual, new expectations of time and space.

Globalization and its backlash: The access to information and the presence, impact of global corporations and non-democratic global financial systems. The role of anti-globalization as a social movement. New understandings of the role and potential of international aid.

Community and environmental sustainability: as both practice and attitudinal change. Increased awareness, concern for, and investment in efforts to address environmental fragility. Corporate social responsibility. The role of communities in affecting change – educational, social, health-services, and environmental action.



We now turn our attention to identifying important shifts taking place within the industry.

Changing Markets for Philanthropy

The growth in philanthropy and nonprofits is changing the way the market works. Most of the new giving vehicles and most new nonprofit organizations are small. It is hard for them to find one another in a crowded landscape and to work together. The individual approaches of foundations and the competitive aspect of the changing market exacerbate the fragmentation in the industry. Just as the time to come together and build alliances and joint ventures is so clearly upon us, the forces at work in industry growth are pulling institutions apart.

The demographic and economic changes noted above are behind immense generational wealth shifts in the United States. The estimates of wealth transfers from aging baby-boomers to their children and grandchildren range from \$40 to \$150 trillion. No surefire models exist for predicting how and to what extent some of this wealth will be dedicated to philanthropic endeavor. Even so, Global Business Network recently stated that, if recent trends continue, the United States will see charitable giving between 2000 and 2010 increase by more than \$1 trillion from the period 1990-2000. As Erik Smith of GBN writes, “That means that by 2010, an additional \$100 to \$150 billion will likely be given away in the U.S. *each year.*”⁴ What we do see quite clearly at the end of the 1990s is the creation of new means of drawing this wealth into the sector. A philanthropic gold rush has been on for most of the last ten years and should continue over the next several decades.

In the clatter of noise that marks the information age, it is particularly hard for nonprofits and foundations to make themselves heard. As they struggle to define themselves as different from commercial giving opportunities, foundations face two issues. First, they have little experience branding the work of single institutions let alone an entire industry. Community foundations and regional associations of grant makers (RAGs) have tried to “market” philanthropy - both have made progress but rather late in the game.

Second, they are attempting to differentiate themselves even as the lines between public, private, and independent sector blur. The MTV and subsequent generations are quite used to commercial operators of public schools and nonprofit health maintenance organizations transforming themselves into private companies. These generations will soon be unfazed by federal agents and national guardsmen screening bags at airports. In these contexts of shifting roles and expectations for government and business, the unique role of nonprofit entities will become harder to articulate. Distinguishing the value proposition of nonprofits and philanthropy will only get more difficult as the sectors blur—more difficult and more critical.

Values

The philanthropic industry needs to stand on and communicate its values. In the words of one adviser, “Business is about value, philanthropy is about values.” This message is of particular importance in considering measures of impact, effect, and efficiency. As efforts to evaluate their work proliferate, and new donors bring business-oriented metrics to the work of social change, many fear that the heart and soul of philanthropic endeavor is being lost. Maintaining the commitment to values-driven and independent work is critical to the health of philanthropy and nonprofits.

⁴ Erik Smith, “The Coming Flood: Philanthropy in this Decade,” Emeryville, CA: Global Business Network, 2002. www.gbn.com

New Capital Markets

The changes in the marketplace of philanthropy have shed light on an age-old challenge to nonprofit success. The capital markets for independent work, which rely on individual contributions, government contracts, fees for services, and institutional philanthropic support, are unaligned, uncoordinated, duplicative, and unreliable. One of the important offshoots of the debate about venture philanthropy that filled so much intellectual space in the late 1990s was its focus on the inconsistent and ultimately damaging mechanisms for financing nonprofits. As they struggle year after year to re-package success and tout their ability to innovate, nonprofits are consistently undercapitalized and consumed by the need to fundraise rather than focused on service or product delivery.

This is not a new problem, nor did nonprofits only recently become aware of it. However, funders, both institutional and individual, are newly interested in considering the system of financing as a whole, and this is an important change. Sustainability of success is important to almost all actors in the industry. It is time to recognize that the individual actors in the philanthropic exchange can work together to revise the capital market in ways that will benefit all. Several online exchanges have been developed to facilitate direct connections between individual investors and nonprofits. Some of these, the Global Exchange for Social Investment, Virtual Foundation and DevelopmentSpace, are underwritten by foundation and corporate support.⁵ Operating within the distinct spheres of social entrepreneurship and international aid, these are two early-stage efforts to change the dynamics of nonprofit financing.

For the nonprofits that have access to such donors, this may be a good thing in that one door may lead to many checkbooks. Those without access, however, are now cut off from multiple sources and must seek to make sense of the giving priorities of many dispersed and hard-to-find players.

There are many examples of different types of institutional funding partners coming together. The Calvert Giving Folios model a new type of partnership between a mutual fund financial services firm and several nonprofits and grantmakers.⁶ The Humboldt Area Foundation and the Seventh Generation Fund are working together to address Native American issues in four northern California counties. Giving circles, funding collaboratives, and some philanthropic associations offer other vehicles for funders to partner. Several large foundations have attempted to incorporate ongoing funding strategies into their work from the beginning. The Gates Foundation has achieved some success in re-shaping the ways pharmaceuticals are sold abroad and the Packard Foundation's California Conservation Initiative sparked significant additional philanthropic investment as well as the passing of state bond measures for land conservation.

What is really needed, however, is a wholesale re-examination of how the system works. Assumptions by the philanthropic sector that the public coffers will continue to fund their successful experiments have not borne themselves out since the 1960s. Yet even as this model has finally begun to die in the collective mentality of foundations no clear alternative has emerged to replace it. Public decision making and funding will continue to devolve to states and municipalities, and public sector budgets in the next decade are likely to be marked by red ink. The need to rethink the financial markets and systems for philanthropic financing of innovative new approaches and essential basic services is critical. Which players in the financing stream are best at which roles? Who should specialize in research and development? Who carries start-ups to

a level of stability? Who carries small programs to scale? As the players in the philanthropic landscape move to examine these questions, across the industry the possibility for real change grows.

Shifting Sectors

Not only does the new century bring a new focus on the capital issues within philanthropy, the larger marketplace is forcing a redefinition of the activities of the whole industry. As one observer noted about the potential extent of blurring lines between commercial, independent, and government activity, “In capitalism, that which can be privatized, will.” What this means for public service and what it means for philanthropic endeavor remain to be seen.

Nonprofits and philanthropy must define their value in relation to shifting commercial and government sectors. Private firms have moved into education, childcare, and other social services. Health care and the arts have long been the purview of all three sectors: commercial, public, and independent. The federal government continues to devolve policy and budgetary decisions to the states. There is concern that the private sector will “cream” the easiest to serve while the government will continue to contract for service rather than serve, leaving the independent sector ever more responsible for the most disenfranchised and disadvantaged sectors of society. This is a problem, for even as philanthropic assets have grown, the percent dedicated to social justice has not kept pace. The ability and willingness of the philanthropic sector to replace public services is as doubtful a proposition today as ever.

Moreover, nonprofits and philanthropy are rightfully concerned about being seen as too close to government, especially as they are increasingly responsible for providing what were once public services. Given the low level of public faith in government, most nonprofits are not interested in co-opting its reputation. Furthermore, many foundations and nonprofits see their work as falling on either end of the political spectrum and in direct contrast to the activities of a more centrist government.

In this context it is ever more critical to develop clear strategies for how philanthropic funds and knowledge interact with and add to the private and public spheres of American life. Doing so needs to occur across the industry and for the industry as a whole, for no individual philanthropic institution stands to replace or even catalyze significant new capital or policy structures on its own.

New Products, New Services

Much of the energy for the changes in philanthropy comes from the infusion of wealth that started in the 1990s and is expected to continue, with some variation in pace, over the next two generations. The wealth is both newly created and being passed from one generation to the next. Philanthropic purveyors are rushing to court the individuals in control of this wealth. The rush to serve them has inspired the creation of new products and new services.

These new products include the rapid proliferation of DAFs at entities beyond community foundations. Individual nonprofit organizations, independent DAFs, community endowments, universities and museums, and financial service firms all offer DAFs. The organization “Cool Rich Kids” will provide you with both advice and a charitable giving vehicle if you are another “cool rich kid.” Philanthropic advisers now include, in addition to the lawyers, accountants, and investment managers, independent strategy consultants, family dynamic counselors, private firms

providing support to family offices, and nonprofit incubators for new foundations.⁷ The e-philanthropy explosion of the late 1990s was one quick-burning manifestation of the interest in providing new levels of services and delivering new types of products to this market.

Facing so many options, donors often choose not to choose. Many potential donors decide to do nothing. Others find that they quickly become foundation board members, donor advisers, a member of a giving circle, a committee member on the corporate contributions team, or a lead donor to an institution they have long supported. The lines begin to blur between their roles as an individual donor and their work as part of a philanthropic institution. To many of the donors, this distinction doesn't matter at all. What they do and learn in one arena may inform them in the others. As this occurs, they will continue to demand more product selection and services that address a range of their giving options. Purveyors, products, and services that have operated as competitors will need to develop alliances and provide joint services, ventures, product development, and cross marketing.

The new products are being designed to reach and serve the masses. Yet giving is inherently a personal endeavor. The ability to "mass customize" philanthropic products and services, and to provide the appropriate level of personal touch to high numbers of clients, will define success.

All of this is part of what is being called the democratization of philanthropy. More people, at a greater range of income levels, have access to a greater range of giving options. Tax law changes, such as a proposed change in charitable deductions for non-itemizers, will further expand philanthropic activity.

Although these phenomena do allow philanthropic participation by a broader band of individuals, the process is no more democratic than ever before. What has happened instead is the *commodification* of philanthropy. Here the similarity to the recent past and present changes regarding Americans and the stock market is a useful analog. We saw with retirement funds and pensions that as new regulations allowed new products to develop, a new class of investor was born. This new investor demanded different services and led to the birth of new firms, a wave of mergers among established firms, and ultimately new industry regulation. The very same cycle may well be underway in philanthropy.

The Regulatory Landscape

Regulatory interest is one area in which the two industries, philanthropy and investing, are likely to continue to mirror each other. Both are likely to experience tighter regulatory investigation in the near and long term. In the world of corporate practice, scandals such as the Enron bankruptcy are accelerating attention to accounting standards, retirement plans and policies, and even campaign finance reform. For philanthropy, there is general agreement that the proliferation of DAFs is the red flag that will draw the attention of regulators. Several commentators noted that all "it will take is one good scandal and the other shoe will drop" on philanthropy. The Internal Revenue Service (IRS) intends to audit approximately 150 sample DAF providers, looking at both commercial and community entities in 2002.⁸ Recent reports on the IRS's rapid response to approving 501(c)(3) applications after September 11th suggest additional concern about the standards in the industry.⁹

Although IRS audits of nonprofit organizations have been on the decline in the last few years, other elements of the regulatory structure are still on the minds of legislators and the tax system. Recent actions to repeal the Estate Tax, proposals to extend charitable deductions to those who do not itemize on their tax forms, efforts to revise the excise tax on private foundations, and several state and local challenges to tax exemptions for nonprofit organizations have industry observers on alert. As mentioned earlier, however, these same observers see themselves and philanthropy in general as “defensive, not pro-active,” in terms of working with regulators and legislators.

Some of the sub-groups within philanthropy may more policy-oriented than others. In focus groups and interviews and from reviewing web sites and printed materials it became clear that both small foundations and rural foundations (especially rural community foundations) are in fairly close contact with local and state representatives. The Association of Small Foundations reports that a majority of its members know their congressional representatives. The association encourages its members to get to know their local government officials. Rural community foundation executives also reported high engagement with local and state government officials – “everyone knows everyone out here.” These groups and others, such as the Council on Michigan Foundations, which has a program to introduce foundation executives to state and local representatives, believe such relationships are important for communicating the value of philanthropy and in gaining access to regulatory decision makers.

For the most part, however, foundations remain rather distant from public policy makers until there is an industry crisis. While the national trade associations and membership groups such as the Council on Foundations and Independent Sector are well positioned to track policy changes, communicate them to members, and galvanize responses, the infrastructure at the state level is significantly more varied and less ready to address policy. Several states have no professional associations aligned with state governing structures.

Operating in the Public Eye: Growing Public Attention

The 2001 Annual Conference of the Council on Foundations was titled “Preserving the Public Trust: Responsible Use of Private Wealth for the Public Good.” This is only one recent manifestation of the industry’s recognition of its responsibility to the public. There has been much talk of accountability and transparency in philanthropy, and most foundation executives will go on record as standing for these two characteristics. Many have invested heavily in communicating about their work, hiring communications experts, building robust web sites, publishing materials far in excess of that required of them by law. At the same time, thousands of foundations are more interested in anonymity and staying behind the scenes.

The industry’s interest in communicating its work is occurring in concert with a growing public awareness of the field, as well as the regulatory interests mentioned above.¹⁰ Even if congressional or state legislative hearings are not imminent, foundations must recognize that the general public’s awareness of their work has changed forever. This has several causes from the last decade. The rise of the Internet makes information readily available and has increased expectations about access. The general and business media feasted on philanthropic cover stories in the last years of the 1990s. The charitable outpouring that followed September 11, 2001 was followed closely by widespread media coverage of how funds were to be used and disbursed and how decisions were to be made. These impressions and this understanding and awareness will be lasting. Although actual printed pages or media attention directly to philanthropy will wax and

wane, the overall awareness has increased so that scandals will fade less quickly and major giving campaigns will be understood by a much broader public.

The confluence of this attention to philanthropic practice from within and outside the industry has potential to provide ground for real change. Making transparency and accountability terms with real, shared meaning will take industry-wide action. Private foundations, community foundations, and commercial ventures can act together to jointly define and contribute to the creation of public information about their work, the standards for such information, and elements of practice that would meaningfully reflect a more transparent industry.¹¹ Such pre-emptive group action is unfortunately unlikely unless sparked by scandal or investigation.”

3. The opportunity to evolve

From: “The Deliberate Evolution,” *Foundation News and Commentary*, March/April 2002

In the aftermath of the nation’s greatest economic boom ever, the notion that certain elements of the “new” economy might be permanent parts of *the* economy is finally beginning to take hold. The elements of this economy that truly matter – the role of information and knowledge as commodities, the global marketplace, and the speed of transactions – are now recognized as standard elements for the future. Other characteristics, such as the held-breath belief that internet-based companies could flourish without generating higher revenues than costs have proved themselves to be momentary misperceptions of a particular point in time.

As a society, it has taken several years for our understanding of the changes in the economic landscape to catch up to the actuality of these changes. That is, certain new strategies were being developed and tested within single companies that were analytically sound and projected as good business practice on the scale of that one organization. Over time, more and more companies were formed or attempted transformation using these strategies. For the most part, the focus remained on building single competitive entities or perhaps changing the way certain industries worked, not on trying to create a new economy. In the course of many single entities changing practice, a “new” economy was born.

Foundations should act differently than commercial corporations. Even as foundations focus on their individual operations and strategies they should do so in ways that align with their unique bottom lines – mission accomplishment. In general, foundations do not compete for market share and their success is not dependent on beating the competition. *In fact, achieving stated missions actually might require active collusion.* As non-competitive structures, for which market share makes little sense as a prime motivator, foundations have the chance to develop deliberate alliances in the new philanthropic economy, to work together to deliberately promote social change.

This opportunity is particularly ripe now, as the numbers and types of philanthropic institutions are increasing rapidly. As the numbers increase, new regions of intense philanthropic density are emerging. This density eases the way for funders to capitalize on the skills and resources of their peers. The very tools of information technology that have played such a role in changing corporate behavior can be used by foundations to share information, conduct joint research and grantmaking, and pool skills and resources.

The changing tools of philanthropy give donors more options in structuring their giving. Today's philanthropists are consciously choosing multiple giving tools – private foundations, venture networks, issue-oriented public charities, and donor advised funds. In doing so, they are trying to derive the greatest value from each philanthropic structure to maximize the reach of their giving. This presents a new challenge for philanthropic institutions to emphasize their strengths and clarify their unique value given the expanding industry and choices.

What might this mean for foundations? What do foundations provide that donors cannot accomplish through private bank advisors, charitable gift funds, corporate philanthropy, or pooled funds? These questions have had little relevance for foundations in the past. Even now, established foundations may feel little pressure to prove their unique value – after all, their endowments ensure their existence. For individual institutions the option will always remain to do as they have always done. For philanthropy as a whole, however, foundations have the opportunity to lead the field and help define “wither philanthropy” in a way that none of the other philanthropic institutions can. For foundations can actually focus the question on the impact of giving on social change, and not on the tax benefits and management fees differences that the market-driven options are likely to emphasize.

Foundations are both independent and interdependent organizations. They are still products of individuals, families or corporations that wish to stand recognized for their unique contributions. They still manage their portfolios separately, hire individual staffs, perform their own (often repetitive and redundant) due diligence on grants, and publish their own reports on the impact of their work. Yet they increasingly operate within loose associations, the growing density of like organizations has not been lost on them, and there is frequent talk of networks of funders and partnerships with grantees.

It is the qualities of networks and communities of interest that hold the greatest promise for foundations to lead the way in developing a new philanthropy. The current operational practices of foundations quite possibly stand in the way of capitalizing on the full power of the philanthropic assets under management, the talents and skills of foundation executives and the vast knowledge of social change that foundations (individually) have accrued over the years. Such individualistic actions run contrary to what we have now seen to be some of the truly transformational elements of the economy – valuing and applying information, networking communities of interest, and leveraging financial assets.

Philanthropic foundations can, if they choose, be deliberate and cross-institutional in employing practices that stand to improve their work and change the field. To do so would require a commitment to knowledge exchange that, thus far, is rarely seen in institutional philanthropy. We can imagine numerous ways for foundations to do this:

- Developing ways to share issues analysis and proposal reviews across like-minded foundations would streamline the application process (for funders and nonprofits) and possibly develop a standard set of success criteria;
- Sharing issue-based research at the point of strategy development, so that foundations work together from the beginning to define problems and proffer solutions;
- Mentoring board members across foundations;
- Incubating philanthropic strategies within groups of funders;
- Making transparent the cycle of proposal review and decisions with nonprofits and facilitating the exchange of information received via this process with grantees, other funders, and non-funded applicants;
- Hiring staff with specialized skills and sharing them across foundations;

- Establishing ongoing local task forces of community partners, funders, and public sources to mine the data received via proposals, research, and evaluation and brainstorm mutually-developed strategies;
- Reorganizing staff structures to utilize program staff expertise for analysis and strategy and not for proposal processing;
- Using existing networks of funders and consultants to develop deliberate information exchange practices;
- Finding, cataloguing, and valuing into job descriptions the active exchange of information and knowledge for foundation staff;
- Sharing cross-institutional analyses of local conditions and potential strategies, as well as grant recommendations, with individual donors, public charities, and other funders.

Foundations invest a significant amount of time, money and expertise into problem identification, definition and strategy development. This distinguishes them from other existing philanthropic institutions. Sharing the results of this analysis is a way to leverage their investments in this research. It is a way to bring in other financial resources, network and share information with peers and other funders, create cost efficiencies across the industry, and achieve common goals. The unique value of the foundations – the research and expertise of their staff and their ability to convene the partners – would be facilitated by the flexibility of fund transfer allowed by charitable gift funds, the reach of venture funds, and the issue-based knowledge of the nonprofit partners.

What might these behaviors hold for philanthropy? At the least, we can imagine:

- Increased resources, focused on specific goals;
- Greater knowledge exchange;
- Cost efficiencies, particularly in terms of foundation staff time;
- Stronger partnership possibilities between funders and nonprofits;
- New partnerships across philanthropic structures and with the public sector.

What would these arrangements cost foundations? A starting list would include:

- Old job descriptions and organizational structures;
- Some pride of ownership;
- The security of internal-only accountability;
- Potentially less breadth in their funding;
- The price of new information technology;
- The comfort of the familiar.

It is time to consider how clusters of foundations act differently and how the philanthropic industry acts as a whole. Networks of foundations in cities and regions around the country might adopt deliberate, collusive, networked strategies to achieve shared goals. Doing so would bring to bear some of the hard-learned lessons of a century of foundation philanthropy (strategy, partnerships, length of commitment, sharing results) with the tools of today.”

4. Multiple choices

From *Philanthropic Comparison Shopping*, Washington, DC: The Council on Foundations, 2001

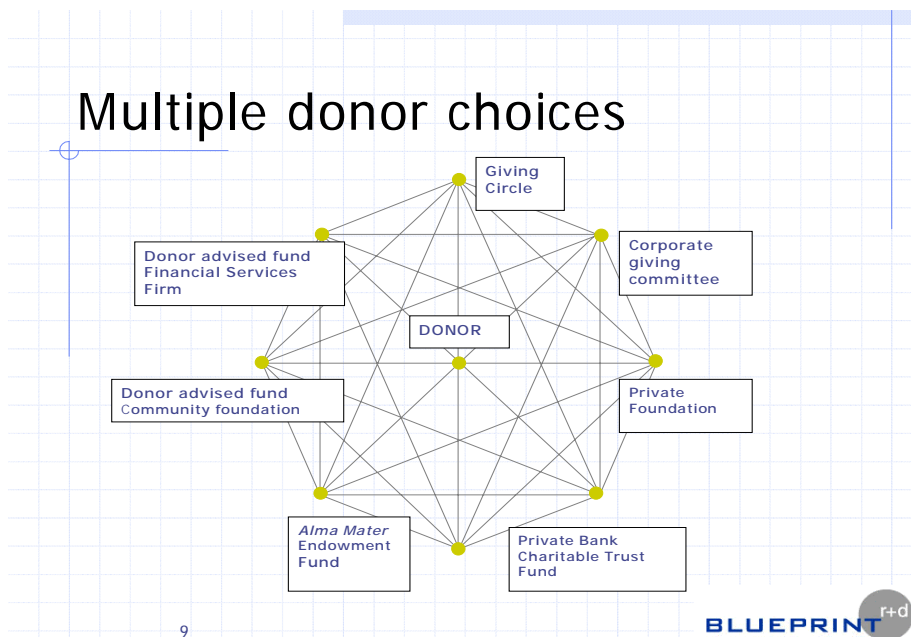
“A common opening question to philanthropic advisers, foundation donor services staff, estate planners, attorneys, financial planners, and accountants is “How do I get started in philanthropy?” And, for a long time, the answers also had something in common. Regardless of what that answer

was – work with a community endowment, start a donor advised fund, start a private foundation – for each donor there was one answer.

This has changed. As the number of giving options has multiplied, as donors have read about private foundations in the newspaper, giving circles in the airline magazines, and community foundations in the major business weeklies, they are aware of the choices that exist. And as they learn of these different options they are choosing all of them, not one of them.

This phenomenon – the use of multiple giving vehicles – is important for the donors, the advisers, the purveyors of these vehicles, the nonprofit and public sectors that interact with private philanthropy, for all of us. The use of many giving vehicles by many people represents a major change in the ways individual givers and philanthropic institutions interact and the ways these institutions need to think about the donors who fund them.

The choice of many vehicles instead of just one mirrors a larger trend noted in recent studies of Internet commerce. These articles comment on the fact that most new car buyers now come into dealers' showrooms having first done extensive web research. These buyers are getting better prices, refusing expensive add-ons, and playing one dealer's offer against another's. The same behavior is seen in patients coming into doctors offices with reams of medical information and customers bringing online book reviews into local bookstores, looking to get their book now and save delivery fees.



The Internet has made it far easier for consumers (and philanthropists) to learn about the choices available to them. Armed with this information, the philanthropists are doing the same thing they do as consumers – they are looking for value. Just as the consumers behavior have implications for the car dealer, doctor's office, and bookstores, the philanthropists behaviors has implications for the institutions that serve them, be they banks, brokerage houses, private or community foundations....

... Knowing that a donor already is using several different giving vehicles to achieve her philanthropic goals changes the landscape for all involved. It is not a purely competitive decision between one option and another. A much more nuanced set of factors is involved, and good advisers can help donors see the complementary nature of the choices they are making.

The trend toward multiple giving vehicles has several implications for philanthropy. These implications are cross-cutting, but for clarity's sake are broken down according to interest groups within the whole.

Donors:

- Will comparison-shop across options, structures, and vehicles.
- Will seek metrics that can help them assess impact across structures.
- Will use some vehicles temporarily, rather than in perpetuity.
- Will continue to mix-and-match, creating new hybrid structures that best fit their needs.

Purveyors of donor advised funds

- Will operate in an increasingly competitive field, watching out for new purveyors from both the commercial and nonprofit sectors (witness the rise of university-based donor advised funds)
- Will offer complementary services to keep donors as repeat customers.
- Will need to continually educate their advisers about changes in the industry. Cross-sector educational opportunities will be important.

Nonprofits and public sector partners

- Will seek to map the connections between vehicles and the donor networks.
- Will be able to leverage connections with one 'node' of a donor's network.

Institutional philanthropy

- Will need metrics to assess impact of different vehicles, as well as ways to articulate the roles of complementary strategies and networked giving
- Will need to reconsider standard definitions of philanthropic activity when measuring entities, and may need new categories for philanthropic networks or hybrid structures.
- Will benefit from deliberate 'cross-pollination' of ideas between financial services firms and the nonprofit sector as donors seek hybrids.
- Will see the impact of late 1990s boom in new fund creation five to ten years from now as the start-ups settle in.

Conclusion

The boom of the late 1990s is just beginning to show its impact on institutional philanthropy. We have seen (and are still seeing) an explosion of new giving vehicles coming into the market. We can find many examples of hybrid entities being formed by creative philanthropists. And donors are choosing multiple giving vehicles, creating new networks of funds, and looking for both differentiated and complementary value from each of their choices. All of these changes mark the beginning of new terrain for philanthropy, one that calls for keeping one eye on the horizon, one in the rearview mirror and both hands on the wheel.”

5. The role of knowledge

From *Spending Smarter: Knowledge as a Philanthropic Resource*, Los Altos, CA: The David and Lucile Packard Foundation, 2001 and *Philanthropic KnowledgeBase: New Tools for Philanthropy A Concept Paper*, The David and Lucile Packard Foundation, 2002

From *Spending Smarter*

“Imagine an organization that routinely gathers data, systematically derives new learning from it, makes decisions based on those lessons, invests both dollars and the expertise that is gathered from the organizations it supports, and you have a new institution: the knowledge foundation. Such an organization relies on a re-valuing of foundation assets to include not only their financial resources, but also their information technologies, knowledge bases, and organizational learning systems.

The thesis of the Project on Foundations in the Knowledge Economy is that the strategic use of information assets, supported by new structural incentives and the judicious application of information technologies, offers foundations an opportunity to significantly increase the impact of their grantmaking.

As foundations recognize the value of their information assets – timely knowledge about social trends, community change, and organizational behavior – they will place the kind of emphasis on knowledge development, management and dissemination as they now do on grant processing. Understanding the role of information assets will benefit from and contribute to current discussions on the added value of philanthropic grantmaking.

This paper is a first attempt to redefine institutional philanthropy in this way. We seek to add to the recognized definition of foundations’ resources in ways that can unleash more of their potential as change agents. Knowledge fits in at many levels and places in the organization. By better understanding the roles of information and knowledge, foundations can augment their resource base and add to their set of available tools.

One caveat about knowledge as a resource: valuing foundation knowledge neither subtracts from the importance of financial resources nor is it meant to distract foundations from thinking strategically about those resources. Rather, knowledge assets add to the foundation’s resources, as they become strategic guides in deploying financial resources, as well as one of the desired returns on those investments.

The development of new ways of using and sharing knowledge will improve the ability of individual foundations to accomplish their missions. It also will improve the ability of the industry as a whole to calculate the overall contributions it makes to society in return for the public trust it holds. Foundations that can manage knowledge and apply it strategically will leverage other private and public funds to their issues and initiatives, and manage more effective partnerships. They also should be able to measure improvements in their internal efficiency and the effectiveness of their staff and board decisions.

This paper considers the current context of institutional philanthropy as both a reason and an opportunity for this redefinition. It also looks at knowledge management in the commercial sector, and considers what those lessons offer in the field of philanthropy – and where they fall

short. To avoid putting a square peg in a round hole, we adapt what we know about knowledge management to what we know about philanthropy – and not vice versa. It has been said that foundations have only the “blunt instrument of money” to bring to the public problem-solving arena. We would propose that the deliberate use of knowledge sharpens that instrument....

... Knowledge as a Philanthropic Resource

Foundation knowledge assets take many forms and are found in many places. They include community data on key issues, staff knowledge of effective strategies, experience-based information on community leaders, public sector issue data, research reports and analysis, evaluation data, the skills and resources of their reference librarians, and the institutional memories of their long-term administrative staff people. The assets also include community relationships, their convening skills, and their abilities to draw together disparate information and people to address complicated issues. Given the variation in these assets, finding, cataloguing, deploying and valuing them is only possible if the purpose for doing so is clear.

Foundations, of course, have fundamentally different bottom lines than commercial entities. For philanthropy, the meaningful bottom line is mission accomplishment – which usually is linked to social change.

The only way to know if a foundation has accomplished its mission is to know how well its nonprofit partners have achieved their goals. Since nonprofit mission accomplishment does not generate a financial return to the foundation, the currency of this exchange cannot be measured in dollar values. Instead, the appropriate currency to assess this return is knowledge creation and application.¹²

Both the key sources and users of information and knowledge are external to the foundation – other grantmakers, policymakers, and nonprofit organizations. *As such, foundations trying to find and use knowledge as a resource need to rethink where the borders of their organizations are, where they get knowledge from and how they use it, and, most important of all, how using information and knowledge aligns with and can accelerate progress toward the foundation’s mission.*

A **knowledge foundation** is a philanthropic institution that views knowledge as a distinct asset and strategically develops, captures, uses, and shares knowledge to achieve its mission. The foundation recognizes that it relies on both external and internal knowledge, and develops strategies that are appropriate to both sources. There are several strategies currently being tried to connect knowledge capture and use with mission accomplishment....

... Toward a knowledge foundation

Here is an example. The K Foundation is committed to helping children learn and develop into healthy adults. It funds afterschool programs as part of this mission. In addition to research and advocacy, it funds several local programs. In each of these proposals, it notices a budget item for transportation.

After several years, the foundation staff realizes that they have been spending tens of thousands of dollars every year on bus insurance. They know from research on afterschool programs that transportation is key to success. They also know from informal conversations that their peer foundations are effectively funding the bus and insurance companies as well. They also know that the local city government spends millions on public transportation. They decide to see if there isn't a more efficient and effective approach.

The K Foundation's evaluation staff review five years worth of grant proposals and develops a standard means of calculating transportation expenditures. A graduate student researcher is hired to gather the same data from as many of their local foundation peers as possible, and they assemble historical data from twenty foundations, totaling several million dollars annually.

The K Foundation convenes its peer foundations and the nonprofit organizations that were being funded by most of the foundations to run these programs. They share the data analysis and ask the group, "Isn't there a better way?"

After several discussions, the group decides to jointly investigate pooled transportation opportunities. It also proposes several ideas for working with the city to make better use of public transportation facilities. One of the foundations has its research staff analyze the local public transportation system and budget on behalf of the group, while another foundation's reference librarian identifies model transportation partnerships. The researcher contacts the local newspaper's transportation and city desk reporters for data and past analysis, and to let them know the work is happening. A report is developed and the foundations and nonprofits invite several department heads from the city and school district to review the study and help them develop alternative, cost-effective solutions for transporting the city's children to afterschool programs.

The joint group of foundations, nonprofits, and city leaders identify numerous short and long-term options. They include a private bus pool, safety monitors on public bus lines so parents will allow children to ride by themselves, new public bus routes, reduced bus rates for program staff so they will ride with the children, a public awareness campaign, parent information workshops, and coordinated schedules and locations for afterschool programs.

Some of the short-term solutions are implemented, work begins on the longer-term strategies, the media covers the story, and other cities begin to seek out the lead nonprofit, foundation and department heads for advice.

Over the years, the individual foundations see a decrease in expenditures for transportation and bus insurance. The programs track improved attendance rates, and the city sees an increased use of its public transit without an increase in safety violations. The foundations share their analyses of the joint work with the nonprofits and the public, and new opportunities for helping young people learn and develop are identified.

The simplicity of the example above is intentional. Many foundations executives will read this and say, "Of course, we are already doing this." But the subtleties are important. How often do foundations actually do the syntheses and analyses of grant reports and share that back with a group of nonprofits? How often do they work with community agencies to identify the next round of community education goals to pursue? How often do they tap journalists as data resources? How often do they work to publicly demonstrate how what they are learning is informing their next round of decision-making, or actively seek ways to help nonprofit partners demonstrate the same thing?

Acting the way the example describes would require new types of behavior by most foundations. It would involve a level of participation in the problem definition stage that few foundations open up to the nonprofits. It would require a willingness to reveal what sources and research are being used to inform strategy development. It also would involve foundation staff (or board) sitting at the table, learning from and with nonprofits, local government and journalists; doing some of the heavy lifting (synthesis and analysis), while acknowledging that the nonprofits themselves are the source of the data, the information and much of the knowledge about what families need to access high quality afterschool programs. In this example, the foundation is developing, using and sharing this knowledge.

Such changes require new staff structures and responsibilities. They need new definitions of communications and evaluation. They call for a different role and emphasis in the work of program staff. Many foundations are, in fact, moving on some of these tracks. But the example above requires that these changes be made simultaneously and strategically within each organization.”

From *Philanthropic KnowledgeBase*

“The Opportunity”

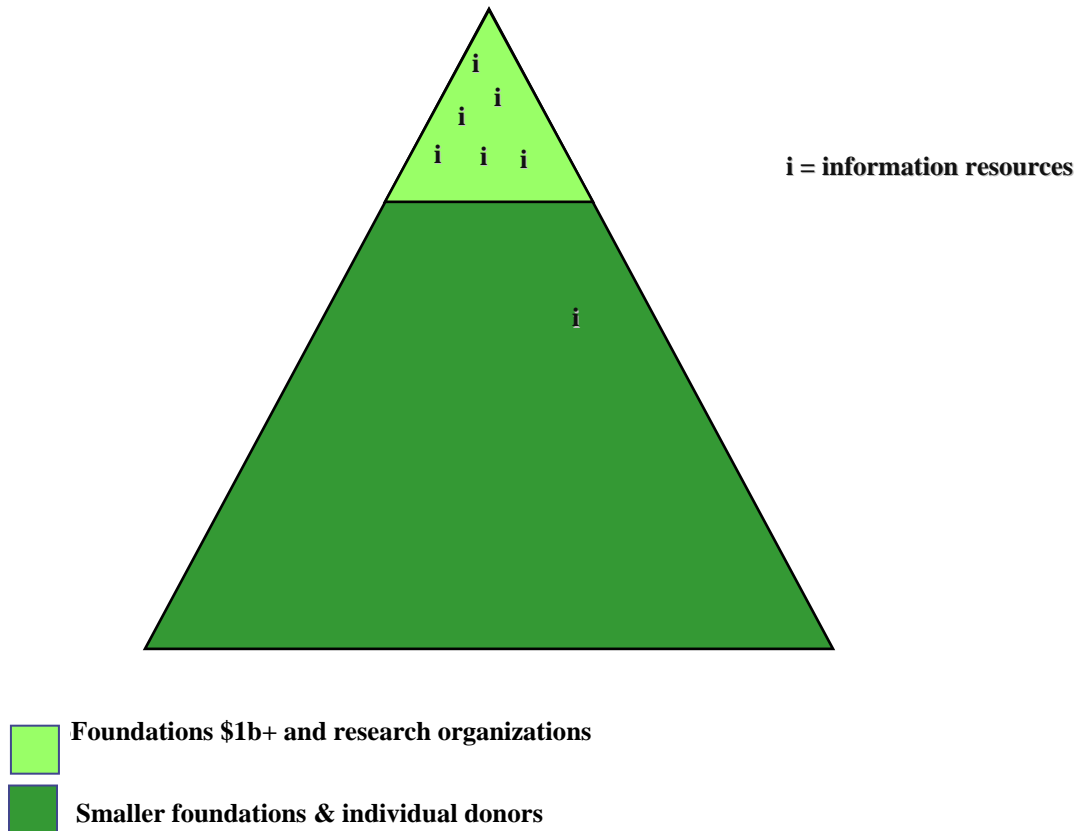
Philanthropy as an industry presents challenges to thinking about knowledge as a resource that are distinct from those within the commercial sector. First and foremost, most research is commissioned and used by large, staffed foundations with the resources to invest in analysis, commissions, consultants, evaluations, research scans, and so on. Other research resources in the field – from independent institutes, think tanks, research libraries and academia also are used most often by the foundations with the staff resources to locate, analyze, consider and apply this information.

Second, the commissioning institutions are the primary users of these research products. Thus a foundation study on environmental justice is, more likely than not, only going to be distributed within the commissioning foundation and to a small circle of its peers. This is true even though the report may be of tremendous interest and applicability to community and environmental organizations, to other foundations, to policymakers, and to the media. Even as large foundations are increasingly investing in distributing their information, they do so in rather haphazard ways, they have fairly limited reach, the public must know which foundation covers which issues, and the general sense among most foundations is that distribution of knowledge is not a priority for their staff.

These factors result in an artificially low “return on the investment” on the research – the only value the research is likely to generate is within the commissioning foundation. In this context, limited return means that foundations sponsoring research miss out on an important strategies to develop sustaining resources for their work. Their ability to develop partnerships is limited, and their success in positioning their causes and grantees with other philanthropists is compromised. Ironically, drawing philanthropic resources together to address social issues is perceived by most funders as among their highest priority and most important social function, since no one institution has the resources to solve societal problems on its own.

The figure below illustrates the location and isolation problem:

Figure one: Information and research resources in institutional philanthropy



The combination of these two industry characteristics—the disparity of resources available for research and the lack of research distribution — ‘traps’ knowledge resources for philanthropy at the top of the industry pyramid, isolating the bulk of philanthropic partners from information and knowledge that could help *all* donors do their work and fulfill their social mission....

Outcomes

The KnowledgeBase is a “pull-and-push” mechanism to unleash the substantive and strategic information contained within part of the philanthropic industry and make it available to other users. The initial impact may very well be seen most profoundly within the top of the “philanthropic pyramid.” Large funders should find the resource useful in helping them distribute their research to peers. This group also has in place the social and learning networks that will help individuals find and use the resource.

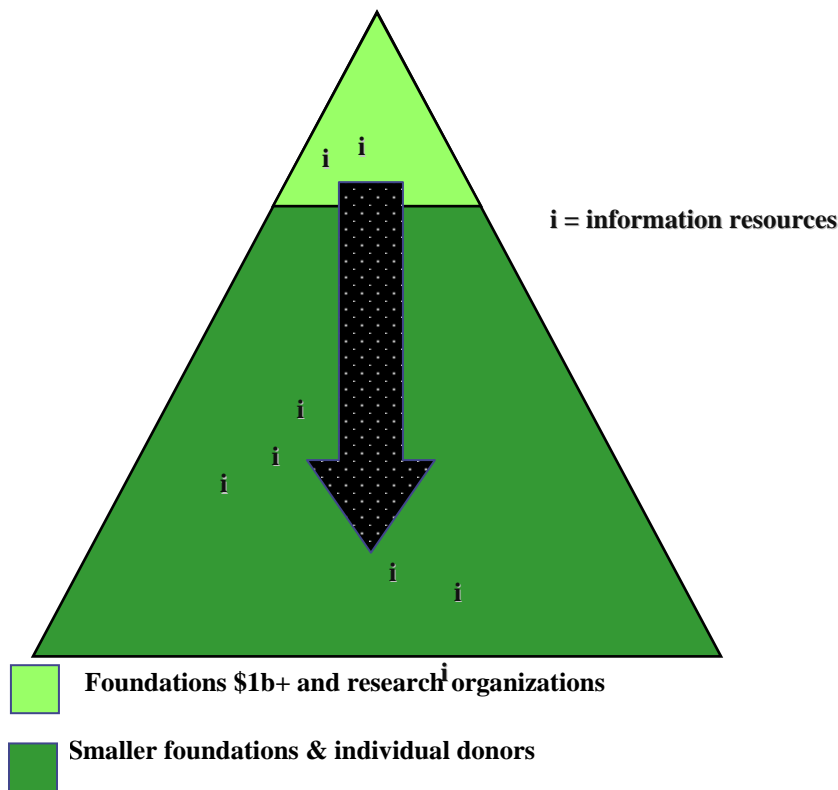
The power of the model, however, lies not in this first stage of change, but in subsequent iterations as the research produced at the top begins to be shared and used by the philanthropic organizations at the broad base. By gaining access to this information, these smaller funders who may not be able or may not choose to invest in research themselves will still be able to incorporate this work into their funding activities. New groups of funders might emerge, new partnerships across philanthropic organizations of different sizes and shapes might develop, and

the investment made in learning will have the chance to influence a far greater set of decision makers and financial resources than before.

This last point is particularly exciting. It is possible that the shared use of research could significantly influence decisions across the philanthropic industry. Small and large foundations, individual donor advisers and community foundation unrestricted funds might be aligned around common issues. Smaller donors, who make up the vast majority of all philanthropy, would have the ability to aggregate their resources around common interests. Large foundations who often start new programs or support initial innovation would have a new way of identifying sustaining resources for these efforts. The fragmentation of the industry might begin to abate, not by crude or aggressive, external forces but by the legitimate shared investment of like-minded philanthropic entities.

Returning to our earlier pyramid model of knowledge and the philanthropic industry, the KnowledgeBase would serve as direct conduit to share information from the top of the pyramid to the base. We can speculate on what future iterations and developments of this conduit might entail (bi-directional flow, for example), as well as the impact it might have on the very nature and shape of this industry. At this stage, however, the KnowledgeBase is best looked upon as a basic tool for accomplishing a very difficult task – information sharing across an industry.

Figure two: what the industry might look like with the KnowledgeBase



Upon considering the impact of such a tool on the industry, an additional “bottom up effect” emerges. By virtue of its search tool, the KnowledgeBase provides a mechanism for users to ask

questions or make suggestions about research needs. This could be done through an automated monitoring of unsuccessful searches – what were users looking for that couldn't be found? This information can be used to inform the research itself....”

6. Complementary strategies

From *The Currency of Change* (Written with Gabriel Kasper)

“Philanthropy is big business. Recent growth in the number, assets, and types of foundations is unprecedented. New vehicles such as venture groups, charitable gift funds, and donor circles have joined traditional private, corporate, and community foundations. 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.”

7. Toward more organized, rational philanthropic capital

Assumptions about change in the industry

- Philanthropic innovation is stymied by fragmentation and silos in the industry.
- These structural barriers limit the movement of money, but not knowledge.
- Readily available technologies and newly positioned enterprises can move ideas through and across the industry.
- Moving philanthropic knowledge is the lever for industry-wide change.



From *Knowledge Foundations and Industry Change*, A presentation for the Charles and Helen Schwab Foundation, April 2002

The chance for change

