

## Shaking the Foundations

Donna Fenn , Inc magazine

Sanjay Chopra is an astute donor. The founder of two technology companies recently joined 59 other fledgling philanthropists to give \$50,000 to KidsVoice, a Pittsburgh nonprofit that provides legal services to children in juvenile court. The group chose KidsVoice from 113 grant applicants after nonprofit experts briefed them on Allegheny County's most serious youth problems. Chopra was particularly impressed with the organization's new director, who had ambitious plans to add social workers to his staff of lawyers. Chopra also liked the fact that KidsVoice needed more from him than just money. "My strengths are technology and putting infrastructures together," says Chopra, who will put those skills to work for KidsVoice as it expands.

Such shrewd hands-on management of his charitable affairs is especially remarkable considering that 18 months ago, by his own admission, Chopra didn't even know how to spell philanthropist. The entrepreneur owes his rapid ascent of the learning curve to Social Venture Partners (SVP), a fast-proliferating grant-making network that channels money to local nonprofits. "The idea is to educate philanthropists," says Chopra, referring to SVP's mission of teaching businesspeople to give wisely. SVP not only raises donors' sophistication but also lowers barriers to entry. "Partners" each pledge \$5,500 a year for at least two years. Education makes philanthropy more appealing, and the four-figure commitment makes it affordable.

"I've learned that the nonprofit world is not that different from the for-profit world in terms of fund-raising, revenue, and taking care of your customers. But they need much more help than typical businesses do with organizational issues." --Sanjay Chopra

SVP is part of a galvanic shift in philanthropy, from elitism toward democracy. As a result, in part, of the boom years of the past decade, 700,000 households each hold at least \$5 million in net worth. While the newly affluent may lack the magnate-scale fortunes of a Rockefeller or a Carnegie, they increasingly want to spread some of their money around. That collective impulse pushed charitable contributions to \$203 billion in 2000 from \$124 billion in 1995. And the number of donors is expected to swell even further over the next 50 years as at least \$41 trillion in intergenerational wealth is passed on. When it comes to giving, it appears, the rich are no longer quite so different from you and me.

The majority of giving is still checkbook philanthropy -- a response to the dinnertime phone solicitation or the heart-wrenching direct-mail piece. But the nouveau generous often want to be more involved than that; they want to personally select causes they find meaningful and to make sure their gifts are well spent. While traditional donors invest in institutions, the thinking goes, new donors invest in ideas. "People are looking for a strategy of philanthropy," says Paul Schervish, director of the Social Welfare Research Institute at Boston College. "They need clarity and insight so they can discern who recipients are, what they need, and how they want to fulfill those needs."

For entrepreneurs, who are accustomed to having more business smarts than money to throw at a

problem, the idea of increasing the value of a moderately sized donation through personal involvement is appealing. "I've learned that the nonprofit world is not that different from the for-profit world in terms of fund-raising, revenue, and taking care of your customers," says Chopra. "But they need much more help than typical businesses do with organizational issues."

Not only are more donors demanding more information about more nonprofits, but they're also evaluating more mechanisms for giving. If you're getting seriously involved in philanthropy for the first time, there are choices to make that have little to do with your passion for cancer research or the Special Olympics. Should you set up your own foundation? Put money into a donor-advised fund? Start a giving circle? Pledge company stock? "There's been an explosion of models," says Joe Breitenicher, president and CEO of the Philanthropic Initiative, a nonprofit research and consulting firm in Boston. "This world is unlike anything I've ever seen. Diversity and pluralism have come to philanthropy."

The new models are a response to growing demand, but they may also help create demand. Many sprang from the minds of entrepreneurs seeking to improve the nonprofit sector (and who also knew a growth industry when they saw one). Some reflect business innovations -- ranging from Internet marketplaces to networked communities -- that have demonstrated legs in the for-profit realm. As such, they make the philanthropic world both easier for ordinary businesspeople to enter and more familiar once they're there.

### **A Foundation of One's Own**

A private foundation has the same air of exclusivity as a private jet. Unless you've got a million bucks to plunk into one and a staff of experts to maintain it, you probably assume it's out of your league. Setting up a foundation "can be a daunting and complex task," says Jeff Nixon, managing partner at Interactive Capital Partners, a venture-banking firm in Rowayton, Conn. "So I shied away from it."

Doug Mellinger changed Nixon's mind. Mellinger, a former software-company CEO, was interviewing to become a partner at Interactive two years ago and told Nixon about a business he was working on that would automate, and consequently bring down the price of, private foundations. "The idea was to systematize the private foundation so that it could be created very rapidly and democratize it so that it would be available to more high-net-worth individuals," explains Mellinger. Interactive Capital invested in the start-up, and Mellinger became its chairman and CEO.

The company, called Foundation Source, primarily targets households with at least \$5 million in net worth. (Of such households, fewer than 4% have their own foundations.) Sold through financial institutions, the product is essentially a "foundation in a box." Customers just add water in the form of a minimum \$100,000 donation. Foundation Source sets the whole thing up in less than 24 hours for \$2,500. (It costs as much as \$20,000 to start a traditional foundation.) After that Foundation Source assumes all the administrative headaches -- dealing with excise-tax payments, IRS filings, year-end donor receipts, and federal regulations -- for a fee ranging from .25% to 1% of the foundation's assets.

A private foundation has the same air of exclusivity as a private jet. Unless you've got a million bucks to

plunk into one and a staff of experts to maintain it, you probably assume it's out of your league.

But Foundation Source's strongest selling point is its technology. Donors access their foundations through a Web site, where they can track their assets, make donations online, print out receipts, and research charities using a database of more than 700,000 nonprofits. Nixon recently set up his own foundation benefiting a local Shakespeare theater, the Red Cross, and a church-operated nursery school. In the future he'll be able to designate set amounts of money to be given away by various family members. "I like using it to pull the family together," he says.

"The market for this kind of product is huge," says Bill Brownson, managing director of philanthropic services for Bank One in Columbus, the first organization to use Mellinger's services. Brownson says that Foundation Source will help make philanthropy "easier, faster, and less complicated" for his customers. And while it may sound counterintuitive for financial institutions to encourage people to give money away, the alternative is worse. "Help investors give today lest their assets walk away," cautions a report by TowerGroup senior analyst Matt Schott, who argues that assisting investors with charitable giving is "one of [a financial institution's] most significant and growing opportunities."

Although Mellinger is selling to banks, brokerages, and accounting and law firms, his sights are squarely on the end customer -- of which he himself is a prime example. The CEO's own foundation, which he is moving to Foundation Source, has contributed significant amounts to youth and economic-development programs. "We have a social revolution going on that will have an unbelievable impact on this country and the rest of world," says Mellinger. "There's a vast number of entrepreneurs and corporate executives in their forties and fifties who are saying, 'I've made more money than I could ever spend. I'm interested in trying to solve something.' "

Mellinger's goal is to help fledgling philanthropists find that "something," by identifying the best vessels for their passions. Education, he believes, is key, so Foundation Source developed a database that includes not just the names, addresses, and descriptions of 700,000 charities but also reports on the charities' performance. "We'll leverage the research of nonprofits, and we recently hired a chief philanthropic officer," Mellinger says.

The Foundation Source Web site will also include information on philanthropic consultants, requests from charities that need volunteers, and chat rooms where members can share information and even pool their resources for collective giving. "My ultimate goal is that we'll help identify problems of common interest to our members and that we'll bring people together," says Mellinger.

At press time, Foundation Source had just two financial partners: Bank One and TD Waterhouse Institutional Services. But Mellinger expects that 8 to 10 more partners will sign on by the end of the year and says the company could be a \$100-million concern in five years. Page Snow, chief officer of institutional planning at the Pew Charitable Trusts, doesn't discount him. "Once you set up a foundation, you're going to have strong philanthropic instincts," she says. "There's an incentive to think hard about results." The market, Snow continues, is more receptive than ever to new ways of giving.

## Branches from the Giving Tree

If Foundation Source is a vehicle for attracting donors, Social Venture Partners represents a proliferation of donors creating their own vehicles. SVP was never elitist, but when Paul Brainerd started it, five years ago, he didn't dream that its appeal would extend far beyond Seattle's young and wealthy high-tech community. Today SVP has 1,040 members in 20 cities, from Calgary to Austin to Pittsburgh to Boston. Each affiliate was founded by locals who were willing to put up both their money and their time. If there's no SVP where you live, you can easily start your own and expect a warm welcome into the fold.

Originally, SVP looked a lot like a traditional giving circle, in which donors pledge money to a common fund and then participate actively in grant making. Typically, participants agree upon a mission: SVP's was to support existing nonprofits that had good track records in children's and education issues. The cost of entry was \$5,500 a year for at least two years.

But Brainerd, founder and former president of Aldus Corp., had loftier ambitions: to "engage a new generation of emerging philanthropists" and "learn how to make investments in the community that would make a difference in people's lives," to quote the organization's annual report. Under his model, granters would work directly with grantees, sharing their business skills but resisting the temptation to meddle with program delivery. "We don't know a darn thing about how to help kids, so we stay away from that," says Paul Shoemaker, SVP's executive director. "But we do know how to build a business." The "venture philanthropy" approach struck a chord among Seattle's newly affluent, and SVP grew from 91 partners in 1998 to nearly 300 today. To date \$3.4 million and countless volunteer hours have flowed to local nonprofits in that city.

JUST ADD WATER: Doug Mellinger's new venture sets up foundations in 24 hours.

Then the kudzu effect kicked in. "A couple of years ago, we got a call from a real estate guy in Phoenix," recalls Shoemaker. "He had made some money, and he said, 'I've been looking for something like this for so long.'" The caller, Jerry Hirsch, picked Shoemaker's brain, studied the Seattle organization, and mustered excitement among his peers. A few months later, in March 1999, Hirsch launched Social Venture Partners Arizona with 36 partners. Dallas hopped on next, then Denver, then Boulder. "We didn't even keep track of them," says Shoemaker, "and then when there were six or eight, there was a realization that there was a movement here. So we all got together and asked, 'Is there a viable connection among these cities? Is there a brand?'"

The appeal of a networked, branded organization was particularly strong among the business and entrepreneurial crowd, who knew firsthand the value of both characteristics. "The big idea is that we're connecting these people," says Shoemaker. "They form a community of networked, engaged, committed philanthropists."

Now Shoemaker has to leverage that community to serve SVP's nonprofit grantees. To that end, he recently hired Tom Donlea as director of SVP International, a newly incorporated umbrella organization. Donlea's job is to keep the SVP affiliates talking to one another through conference calls and E-mail, and

to help train them by providing speakers and written materials. Donlea envisions far-flung SVPs' pooling their buying power to help grantees purchase equipment, such as computers. There's already talk of sharing best practices.

The idea, says Donlea, is to offer a set of operating principles but give local SVPs ample room to experiment. "Three cities have already taken our approach and twisted it," he says. The SVP in San Francisco, for example, makes all its grants in a single neighborhood. San Diego changes the focus of its giving each year. And the Kansas City SVP is creating a social-venture-capital fund. "If there is reason and value here," says Shoemaker, "it will be because there is real learning taking place."

### **Local Heroes**

In 1992, Fidelity Investments strode onto the philanthropic stage with a product designed to attract the assets of new donors. The Charitable Gift Fund, which bore a strong family resemblance to both retirement and mutual funds, pooled charitable contributions and invested them collectively but allowed individual donors to direct where their money would go. Today the oft-imitated fund, which requires a minimum \$10,000 contribution, has more than 27,000 donors and total assets of \$2.6 billion. Its participants have given \$2.7 billion to charity.

Bank and brokerage customers probably know about such "donor-advised funds." They probably don't know that community foundations thought of them first. Community foundations -- there are about 600 nationwide -- are public charitable funds through which community members, including businesses, individuals, and families, make grants to local nonprofits. Donor-advised funds within community foundations have been around for decades. They give those contributors more say in where their money goes and offer information and advice on various charities. Minimum contributions generally range from \$5,000 to \$10,000 plus an administrative fee. As happens with private foundations, donors receive an immediate tax break.

But while community foundations spawned donor-advised funds, it was Fidelity's marketing dollars that made them popular. And that, in turn, has led more and more community foundations to adopt the vehicles and to ramp up services to compete with the private sector. "We needed to offer the kind of service that was competitive with entities like Fidelity," says Jan Kreamer, president and CEO of the Greater Kansas City Community Foundation. "We had been benchmarking against the community foundations but realized we needed to benchmark against the for-profits."

So the Greater Kansas City Community Foundation streamlined its back-office functions, invested in new technology that let donors check balances and give online, and built the capacity to perform complex transactions (such as accepting donations of real estate and closely held stock). More important, the foundation made educating donors a priority. "We live in an information society," says Schervish, of the Social Welfare Research Institute. "Whether it's a disease or a school we want to attend or how we want to give money away, we want to make informed decisions."

That's certainly what attracted Stephen Carter to the Kansas City organization. Carter, the owner of an

\$18-million franchise of Right Management Consultants, is no stranger to philanthropy, having given money to numerous nonprofits and his time to Angel Flight, a network of private pilots that transports people who need medical treatment. But he and his wife, Joan Strewler-Carter, wanted their children to become philanthropists as well. So Carter set up two donor-advised funds for them within the community foundation. "Our children will be directing a lot of the charitable giving," says Carter, 59. "So we've set up small funds for them to be involved in before we die."

The foundation helped Carter's 17-year-old stepson, Blake Narendra, make two \$5,000 donations to the Wonderscope Children's Museum and to Operation Breakthrough, a day-care center serving low-income families. A client adviser spoke with Narendra about his interests and then tapped a database of local nonprofits to find organizations that fit them. She even accompanied the teenager on visits to nonprofits that intrigued him. "In essence, the foundation offers a training program," says Carter. "They helped Blake investigate organizations that would be worthy of the gift. I didn't get involved at all." His own children, ages 31 and 34, will make contributions as well.

Kansas City's community foundation is more sophisticated than most. Philanthropic tyros with a yen to give locally should look carefully at the services and track records of foundations in their areas. "Some community foundations are trying to differentiate themselves by giving donors value-added services," says Allen Grossman, a professor at Harvard Business School's Initiative on Social Enterprise. "Whatever competitive advantage they have is in helping donors think through the funding options. Not enough of them do that well."

### **The New New Philanthropy**

People who don't know the rules don't fret about breaking them. That's one reason the Internet took off with young entrepreneurs in the mid 1990s. At the same time, something very similar was happening in philanthropy.

"There was a wealth of people who didn't grow up with a traditional understanding of philanthropy, and that led to a concerted initiative to create learning labs around the country," says Alison Wiley, president of the Forum of Regional Associations of Grantmakers. In 1998 the Forum launched New Ventures in Philanthropy, a \$20-million, 10-year project that funds and supports new models for giving. Those experiments often focus on specific donor groups, such as women, African Americans, Latinos, rural Americans, the gay and lesbian community, and entrepreneurs.

In North Carolina's Raleigh-Durham research triangle, for example, New Ventures is funding the Catalyst Project, an outgrowth of the Triangle Community Foundation. Part of Catalyst's mission, says project director Shannon E. St. John, is to involve local entrepreneurs in creating vehicles for giving that fit their needs.

Chris Evans, CEO of consulting company Deepwood Group, is one such entrepreneur. In 1999 he and a dozen other local company owners began discussing their ideal philanthropic model. At first the group was mostly sure of what it didn't want. The SVP model, for example, was out. "They didn't want a giving

circle in any way, shape, or form," says St. John. "They didn't want to pool their money and make joint decisions." The group was more intrigued by the Entrepreneur's Foundation, in Cupertino, Calif. (See "Valley Legend's Biggest Road Show Ever," Inc, April 2001.) Early-stage entrepreneurs pledge pre-IPO stock to that foundation, which invests in local nonprofits when the stock becomes liquid. But Evans didn't like that idea. "The charitable act was delayed, and that didn't sit well," he says.

So Evans did some tweaking and came up with the Entrepreneurs Philanthropic Venture Fund. It, too, solicits donations of stock from start-ups. But companies that want to give right away can make grants of up to 50% of their contributions' value, from a common fund. That fund is bankrolled by a small group of investors (Evans is one) and replenished when the start-ups either go public or are sold. The first proceeds repay the fund. The remainder is split between the fund and the participating entrepreneurs, all of whom must use the money for charitable purposes.

The fund launched in 2001 with Max Wallace, founder of three-year-old Cogent Neuroscience, as its pilot participant. Wallace pledged part of his own stock in Cogent, then immediately donated \$5,000 from the fund to Family Health Ministries, a health-care program in Haiti that he researched on his own. While his gift was small, Wallace says it sent an important message to his 80 employees. "Every employee at Cogent has stock or stock options, and I want to show them that it's possible to do this," he says. "My thought is that one day we'll have an employee group of philanthropists. When it's your ownership and your sweat, and you're willing to share that, it's more dear than cash."

But it's cash the fund needs, and its investors bet Cogent will deliver. This is Wallace's fourth biotech company: of the previous three, one went public and two were sold to large pharmaceutical companies. "Wallace has a good track record of success," says Evans. "That's why we approached him."

While the model was conceived in palmer times, St. John says the group never expected quick returns. "We have a lot of biotech companies here," she says, "and they're always on a longer time frame." But, she concedes, "we have become more selective about the companies we invite to participate."

These modes of giving are still in their infancy. They will develop slowly, morph into something entirely different, or perish, according to market demand. But entrepreneurs will likely find many of them appealing simply because they are entrepreneurs. The new philanthropic ventures speak the language of business. Donors make decisions and bring their management skills to bear on urgent problems. They get to master subjects they care about. Experimentation is rampant.

But so is risk. And just as with a start-up, there's no guarantee that what you're doing will make a noticeable difference. "I've watched these new models come in over the past three to four years," says Snow, of the Pew Charitable Trusts, "and there's been an evolution. A lot of my friends in venture philanthropy who were talking about eradicating poverty are realizing that it's hard to get results even in one neighborhood."

"I've seen a lot of new donors become frustrated," agrees Rebecca Rimel, president and CEO of Pew. "They find out quickly that solving a public-policy problem is a lot more complicated than the challenges

they've had in growing their businesses because so much is out of their control."

"Philanthropy," concludes Snow, "is a humbling business."

Donna Fenn is a contributing editor at Inc.

### **A Helpful Heart, a Business Brain**

As more-engaged donors transform philanthropy into a hands-on affair, nonprofits are getting an infusion of management experience along with the cash. The new language of giving, consequently, sounds a lot like the old language of business.

Such respected grant makers as the Pew Charitable Trusts and the Edna McConnell Clark Foundation pledge measurable results and a long-term commitment to grantees, now referred to as "partners." There is a growing realization, too, that venture philanthropy's emphasis on organizational efficiency can and should apply to much of the nonprofit world. "The for-profit sector discovered 20 to 25 years ago that strong organizations produced strong performance," says Jeff Bradach, cofounder and managing partner of the Bridgespan Group, a nonprofit consulting firm affiliated with Bain & Co. that helps nonprofits and foundations boost performance and respond to changes in the marketplace. "Now the nonprofit sector is discovering the same thing."

As a result, charities' back offices are receiving some of the same attention as the field. Enlightened donors, for their part, won't balk when their money is spent on a computer system. "For groups in need of capacity development, these people will do what many foundations are not willing to do because the foundations want money to go to programs," says Paul Schervish at Boston College's Social Welfare Research Institute.

But sometimes worlds collide. As the new philanthropists urge nonprofits to embrace business principles and venture-capital metrics, some grantees worry about the effect on their missions. How do you measure the performance of a rape-crisis center? Will the demand for measurable results compel nonprofits to take on less daunting tasks -- address the symptoms of big problems rather than their causes? Under pressure to "scale," will small but important niche nonprofits be squeezed out of the marketplace?

"Expertise and money, combined in the right way, can be a powerful lever," says Bradach. "But the innovators who are really going to make a difference are the ones who don't underestimate how different the nonprofit world is from the for-profit sector."