

Should Philanthropies Operate Like Businesses?

NOVEMBER 28, 2011

WALL STREET JOURNAL

It's your money, and you're willing to give some of it away to a worthy cause. But you want to see results.

- Measurable progress toward agreed-upon goals.
- Regular proof that your investment is achieving maximum impact. That's the way businesses operate, and charities should be no different.

That's one way to look at it, anyway.

A WSJ Debate

Yes: Good Intentions Aren't Enough

No: The Poorest Will Suffer

Others argue that things work differently in the world of nonprofits and social change. Tackling some of society's biggest problems is unlikely to produce anything like the steady, chartable path of progress that investors require. And that's simply something donors have to live with if they want to help those most in need.

So what should you expect of your charities? Businesslike efficiency? Or something more intangible, less-easily defined?

Charles R. Bronfman and Jeffrey R. Solomon, chairman and president, respectively, of the Andrea and Charles Bronfman Philanthropies, favor businesslike thinking. Michael Edwards, a distinguished senior fellow at Demos, a social issues think tank, argues that social values should take precedence.

Yes: Good Intentions Aren't Enough

By Charles R. Bronfman and Jeffrey R. Solomon

There are many people who, like Bill Gates, have the vision and the discipline to be great philanthropists. They may not be standing on the same platform as Mr. Gates, but they use the same playbook.

Or at least they should.



John Weber

Because Mr. Gates understands what any donor, large or small, should understand: that to have a sustained and strategic impact, philanthropy must be conducted like business—with discipline, strategy and a strong focus on outcomes. Organizations receiving your support should be as accountable to you as a company's board is to its shareholders. You are a stakeholder. And that means, above all else, that you have to know your return on investment.

Effective philanthropy is the intersection between one's do-good soul and be-sound mind. If your acts of philanthropy come only from your soul, you may be throwing your money into a stream of underperforming organizations that mean well. We all know what the road to Hell is paved with.

Private resources have been committed to eliminating polio, for example, because the donors have judged that the effort has a rational business plan that follows a mission statement. More broadly, any supporter of a cause should have the right to expect efficiency in the operations and effectiveness in the strategies being undertaken.

Helping the Poor

As far as we're concerned, the arguments against a more-businesslike approach to philanthropy simply don't hold up. For instance, opponents argue that an emphasis on more-businesslike philanthropy will stop donors from helping the poorest people, because their types of problems are often those least likely to produce positive, quick and measurable outcomes.

Charity Case

Changes in giving, in
inflation-adjusted dollars

-4.2

Overall percent drop
in giving from
2008-2010

-2.3

Percent decline
in individual giving

-28.1

Percent drop
in bequests

-4.1

Percent decline in
gifts by foundations

Source: Giving USA Foundation

We don't accept that premise. Focusing on efficiency and outcomes is an approach that works for any kind of charity, including those that help the very poor. Whatever the mission, there still has to be a balance between revenue and expenses, and goals must be set and met for funding to continue.

The Robin Hood Foundation, which has targeted poverty in New York City since 1988, offers a telling example. The group evaluates the return on investments it makes in various programs around the city. It doesn't make funding decisions based solely on metrics, however. It also relies on the experience of managers in the field and makes qualitative judgments based on comparing benefits with costs.

Robin Hood deals only with an impoverished population, but its principle of being businesslike has served both its clients and its investor donors quite well.

Healthy Grass Roots

Opponents also argue that if business-minded philanthropy takes hold, fewer people will try to effect social change by donating money to social movements or grass-roots political organizations. This isn't true either. There is nothing about grass-roots or social movements that would prevent their benefiting from a disciplined approach. As donors, we would want there to be clarity about the objectives. If the mission is to increase voter registration and voting among an impoverished constituency, it should be easy to see if registrations and votes in targeted areas do in fact rise. Similarly, if a group is seeking greater community amenities, it can show the impact it's having by counting wells and solar cookers in central Africa or playgrounds in East Harlem.

Adhering to sound business principles makes a nonprofit more likely to accomplish its mission, not less. When a nonprofit is run like a business should be, transparency and public disclosure can act as safeguards against the group losing sight of its mission. There also are watchdog groups, like Guidestar and Charity Navigator, that can help expose when expenses not directly related to the mission are getting too high.

We're not saying it's easy to always think like a business when donating money. It may be difficult, for example, for a nonprofit to translate its particular mission into clear and measurable goals, the way a business is expected to. Nevertheless, such an accounting is owed—not only to the financial supporters, but also to the board, managers, employees and intended beneficiaries of the charities' work.

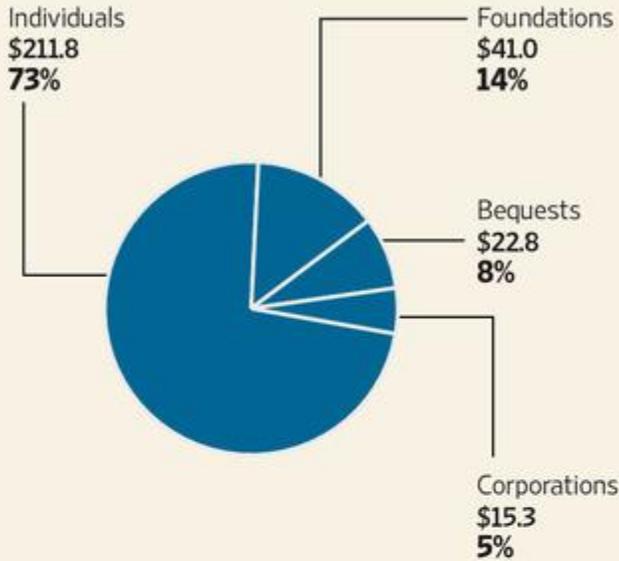
Data, Data Everywhere

Yes, social change is often slow and always challenging to execute. But in this age, when computers have made data of all kinds easy and inexpensive to collect and analyze, why would anyone who is passionate about their charity's work not want to know how it was performing?

By The Numbers | Charitable giving in the U.S.

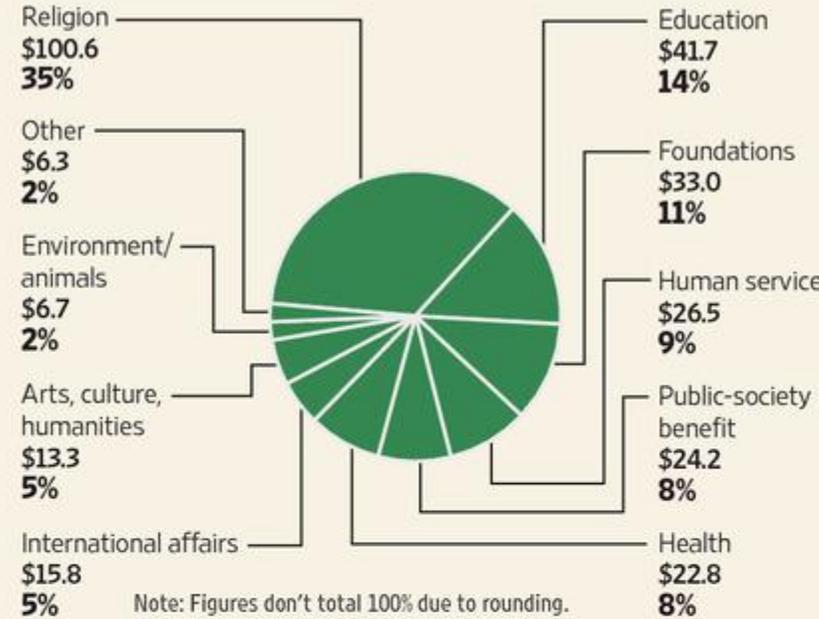
Where the Money Comes From...

Charities rely on individuals for most of their support. Contributions by source, 2010, in billions:



And Where the Money Goes

Religious groups are the largest beneficiary of charitable giving. Contributions by type of recipient organization, 2010, in billions:



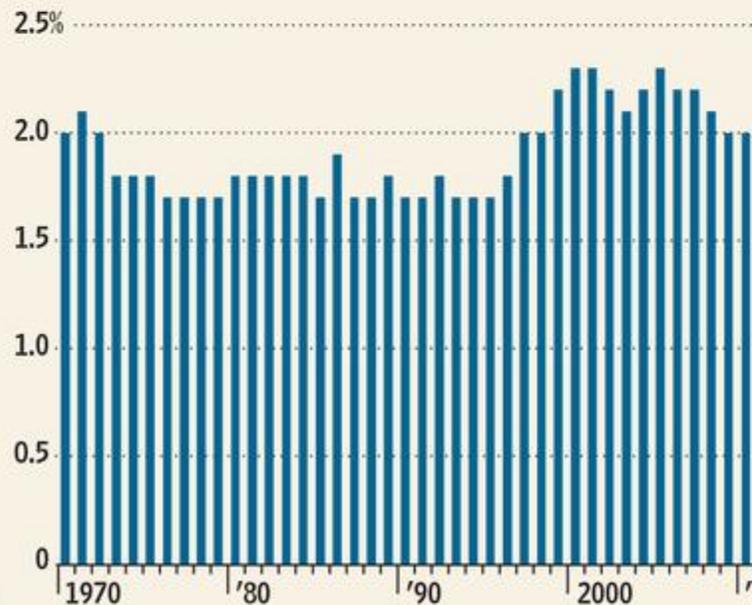
Through the Years

Total giving, 1970-2010, in billions of inflation-adjusted dollars



Charity and the Economy

Giving as a percentage of gross domestic product



Source: Giving USA Foundation, "Giving USA 2011: The Annual Report on Philanthropy for the Year 2010"

Countless individuals practice their philanthropy like investors: They collect data, they measure results, and they constantly strive to improve their charity's performance. A magical alignment occurs when philanthropists and their causes share the desire for a return on investment. As we embrace the next generation of philanthropists, who are coming into their own in this information age, the field will need to be responsive to them.

Plans, theories and metrics are tools, not shackles. Martin Luther King inspired millions with his dream of racial harmony and equality. For civil-rights activists who followed him, there was great clarity as to what to do and how to do it. Their plans featured effective and efficient use of time and people. Dreams without plans remain dreams. Dreams with plans become reality.

Charles Bronfman is chairman and Jeffrey Solomon president of the Andrea and Charles Bronfman Philanthropies. They are the authors of "The Art of Giving: Where the Soul Meets a Business Plan," published by Jossey-Bass/Wiley. They can be reached at reports@wsj.com.

No, the Poorest Will Suffer

By Michael Edwards

There's no question that business thinking can sometimes be a help to philanthropy. There are problems that can be fixed using rates of return and easily measurable indicators of success.

But the key word here is "sometimes." I'd go so far as to say "rarely." When it comes to philanthropy, you can have as many theories, plans and metrics as you like. But in practice what breeds success is something much simpler—the capacity to do whatever it takes to reach your goal and the freedom to use it creatively. And both of these things are threatened by the rise of business-oriented philanthropy.

How could that be? How could anybody argue against the idea that nonprofits should operate with the same discipline and desire for returns that work so well in the business world?

For starters, let's not forget the reason we have philanthropy in the first place. It's to support work that will never be funded or supported effectively by the market or government. By definition, then, too much business thinking will push resources away from the poorest people, the most difficult problems, and the most important solutions—which tend to be costly, complex and slow in coming.

But it's not just a question of returns. Market mechanisms push resources toward their best uses for investors, few of whom want to transform a system that made them rich. Thus, the colonization of philanthropy by business could turn it into a much more conservative force and limit its potential to get at the really difficult problems.

In that sense, diversity in the philanthropic community is vital. An ecosystem of different funding styles gives everyone a fair chance of seeing their ideas and interests supported, even if they seem wild and wacky to you or me.

Out in the Cold

What will this mean in real life? It means there are a whole host of needy causes that are unlikely to get funded by businesslike approaches. Among them: causes that support strong government, social movements and grass-roots action, all of which can be crucial to gaining results where they matter most. Too many business-minded philanthropists consider government an inconvenience that gets in the way of fixing the problems that concern them. But no society in history has prospered without public investment, infrastructure, law and regulation. Philanthropy should build the demand for these things instead of substituting for government action. But to do that, it has to support nonprofits to push for change, not just to deliver on predetermined measurable results.

Say what you like about the Occupy Wall Street demonstrations, but they have elevated the conversation about inequality in America to a level that no one else has done. Yet there is no sign that business-minded donors are rushing to support them, just as most avoided earlier social movements for civil and women's rights.

A business monoculture, in which all conform to the same criteria for giving, is ineffective, undemocratic and less fun. It reduces philanthropy to little more than an exercise in accountancy.

In the end, seemingly intractable social problems are better tackled through traditional grants with no strings attached, allowing people and groups to evolve solutions over time. Social change is not supply-chain management. It is messy, unpredictable, politicized and subject to conflicts of interest and interpretation.

Granted, if two nonprofits in the same field show radically different results according to criteria that you trust and value, you'd be pretty foolish to ignore the message. But this would be hopelessly restrictive as a general approach to philanthropy. And although it drives some businesspeople crazy, it's the profusion of nonprofit groups that creates a healthy society.

No Magic

I don't see much evidence of a "magical alignment" when philanthropists and their charities share a desire for a return on investment. I see a weary shrug of the shoulders from nonprofit staffers who face yet another set of hoops to jump through. Take an issue like whether meetings should stick to the agenda and finish on time, which Charles Bronfman and Jeffrey Solomon advocate in their manual for aspiring donors called "The Art of Giving." Effective community groups take whatever time is necessary to bring different voices to the table and negotiate consensus. Otherwise, little

progress would be possible. Martin Luther King had a dream, not a business plan, yet the civil-rights movement changed the world.

In the end, donors to nonprofits are not shareholders. They don't outrank other constituencies. High-performing agencies are accountable not just to donors and regulators, but to those they serve. And that's good: It grounds them in their communities and keeps them independent of powerful interests that might seek to manipulate them, however well-intentioned.

If we aren't careful, philanthropy could degenerate into a control system, not a support system for social change. And in a democracy, that should set red lights flashing.

There's a simple solution: Use business thinking only where it is appropriate. Stop the hype that surrounds the business-is-best approach.

Let's see more humility among business-minded philanthropists, and greater respect for the distinctive characteristics and achievements of traditional philanthropy and the nonprofit sector. After all, they have already changed the world in many remarkable ways by not being a business.

My vote is to keep it that way.

Mr. Edwards is a distinguished senior fellow at Demos, a New York-based research and advocacy group, and author of "Small Change: Why Business Won't Save the World." He can be reached at reports@wsj.com.