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The Better Angels

The wealth revolution is changing the way Americans give to charity. Nonprofits have to adapt or be left behind.

By ERIC SCHMUCKLER

T he stakes for nonprofit institutions have never been higher. The progenitors of the New Economy have already begun transferring billions of dollars to charitable efforts -- think Bill Gates, whose $21 billion Bill and Melinda Gates Foundation is the nation's wealthiest. And literally trillions of dollars are likely to be funneled into the non-profit sector over the next 20 years as part of the vast intergenerational transfer of wealth that is currently taking place.

John J. Havens and Paul G. Schervish, professors at Boston College and directors of its Social Welfare Research Institute, have been studying wealth and giving for over 15 years. In a 1999 report titled "Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy," they reckoned that the total wealth transfer over the next 20 years will be at least $12 trillion in today's dollars. Of that, they say, $1.7 trillion will go to charitable bequests. This estimate, however, is based on a conservative 2% annual growth in assets, after inflation. If the assets in the hands of today's wealthy grow at a healthier 4%, Havens and Schervish estimate the sum to be transferred between the generations could hit an astonishing $18 trillion, with $2.7 trillion going to charity. No wonder the authors foresee golden times for philanthropy.

Whatever the number, this wealth transfer will have a profound effect on the scope of charitable giving in this country. According to Giving USA, an annual report sponsored by the American Association of Fund-Raising Counsel, total charitable giving last year was $190 billion, up 9% from 1998. A $1.7 trillion transfer of wealth over 20 years could increase that number by as much as 50% a year.

What's more, a significant portion of this money is likely to come sooner rather than later, as wealthy Baby Boomers make large bequests within their lifetimes rather than waiting to pass it on when they die. If President-elect George W. Bush succeeds at lifting the exemption on the estate tax -- to, say, $5 million from the current $675,000 - donors may be even more encouraged to give now, as the current tax benefit may be greater than the benefit their estates receive. (For more on the impact that a change in the estate tax would have on giving, see "Death, Taxes and Philosophy .")

So who will get all of this money? And how will it be used? These are questions that every nonprofit in America is asking. The answers likely will not be determined by whose intentions are purest, nor where the need is the greatest. No, the lucky recipients will be the nonprofits that

Cathie Bleck for Barron's

are best able to articulate their missions, and the groups that are best able to align their goals with the goals of their donors. In short, the biggest winners will be those organizations that are best able to make their donors -- that is, their customers -- believe that their goals are the group's own. In philanthropy, as in much else today, smart, targeted marketing is going to become more important than ever.

Consider a current initiative by the World Wildlife Fund and the Brazilian government to preserve 10% of the Amazon rain forest (see "Saving the Rain Forest "). The project is expected to cost $270 million, and the WWF has enlisted a top Goldman Sachs executive to help tap the aid of wealthy investors for funding. The plan is to present the project in terms that Wall Street can understand, including a prospectus complete with risk factors. The return, if not financial, will be clearly measurable.

Indeed, the need for measurable results has become increasingly important to today's hands-on benefactors. "I think people today want to see more specific results and want to hold organizations accountable," says 48-year-old Chuck Frank, scion of a Chicago auto-dealing dynasty who supports the Sierra Club and local causes. "They're unwilling to say, 'Here, take my money and I hope you do well.' Giving now is much more specific, with strings attached."

More and more donors are wading into the trenches, targeting their money and often getting involved with the recipient organizations by volunteering their time and expertise. The most extreme manifestation of this is a voguish idea called venture philanthropy, a style of giving frequently associated with dot.com wealth. In the broadest sense, venture philanthropy attempts to impose business-world discipline on the charitable sphere, though interpretations vary widely. The challenge to become more business-like and results-oriented has set off a wave of self-evaluation in the philanthropic establishment, even as fundraisers maneuver to get their mitts on this lushest of prizes.

Also angling for a piece of the action is Wall Street, which has taken notice of this unprecedented flood of money and stands ready to help donors part with it. At the upper reaches, where pentamillionaires have become numerous enough to qualify as a market segment ("The Wealth Revolution ," September 18), private banking firms will help to manage one's philanthropic endeavors as part of a complete menu of financial services. On the other end are the burgeoning donor-advised funds, led by Fidelity's $2.5 billion Charitable Gift Fund, which allows anyone with $10,000 to set up his or her own quasi-foundation-in-a-box and get into the giving game with a minimum of fuss.

All these developments portend a new era in philanthropy, one that is more complicated and competitive than before. "The face of philanthropy is changing," says Rochelle McReynolds, who as chief advancement officer is in charge of fundraising for the Sierra Club. "We're all jockeying for position with donors, and there will be winners and losers. You'll see many nonprofits downsizing and merging. It really is a transitional time."

For donors, an increasing ability to give allows them to shape their own philanthropic agenda. And for today's new breed of donor, that means much more than cutting checks; it means hard work. They must embark on a process of evaluation to determine which causes most capture their interest and how they can help most effectively. "It's a matter of determining the footprint you want to make and finding the shoe that fits," says 51-year-old Andrew Tisch, a second-generation member of the family that controls a $4.2 billion fortune through Loews Corp., where he is chairman of the executive committee.

Andrew and his wife, Ann, consider themselves partners in their philanthropic efforts, which grew out of their natural interest in education, health and the arts. "We bring the proposals home," says Ann, "and we hash 'em out over dinner or after the children are in bed."

Adds Andrew, "We're continually discussing it and challenging each other. It's part of our relationship, part of what we stand for and what we're about."

They support their alma maters and their kids' schools; they give to the parks and underwrite a photographer they believe is doing fascinating work. Andrew helped put together a joint program between Harvard's business school and its Kennedy School of Government. Ann, a former broadcast journalist, is raising funds for and executive-producing an HBO documentary on the Holocaust.

The Tisches' biggest undertaking was the establishment of the Young Women's Leadership School, a 330-student all-girls school in Harlem that Ann describes as "a public school with a private school mission." It took two years of lobbying and meetings to create the school in conjunction with the city's Board of Education and a nonprofit educational group. "I try to use my connections and influence to connect students and the school to organizations in New York -- Asphalt Green, Outward Bound, the Frick Museum," she says.

Although he comes from a family whose elder generation is noted for big "bricks and mortar" gifts -- New York University's arts school and medical center hospital both bear the Tisch name -- Andrew calls his philanthropic style "not so much different as evolutionary. We wanted to take it one step closer, and we do support the smaller institutions. The closer we can get to the actual recipient, the more satisfied we are. The money is all well and good, but your time and true caring are extremely important. The school wouldn't be as successful without Ann's nurturing."

Starting out in philanthropy can be a daunting prospect. "There are a lot of solicitations and people can get overwhelmed by demands," says Hildy Simmons, head of community relations and philanthropic services at J.P. Morgan. "You throw up your hands and can't deal with it all. How do you know an organization is good? It leads to frustration." There are a variety of means to ease the way for new donors - from charitable advisers such as Simmons to information on the Internet (www.guidestar.com has the financials on foundations), from how-to courses to peer-group giving circles.

How does a donor choose priorities from the endless array of purportedly good causes? Steve Kirsch, who founded Infoseek and sold it to Disney last year for a 10-figure sum, decided to approach the $70 million fund he established at the Community Foundation of Silicon Valley as if it were a business. "It seemed more effective and efficient to have an investment-like plan," says Kirsch, who is targeting the environment, arms control and medical research with his giving.

In choosing what to fund, Kirsch says he looks for "market opportunities, areas not being funded by traditional sources. For instance, we give three-year grants to accomplished scientists; older researchers find it hard to get funding for a new field of study." Sifting through proposals is a lot of work, he acknowledges, but stimulating. "Yeah, I could dissolve the foundation and just write a $5 million check every year to the Natural Resources Defense Council, but what control do I have over the agenda or how effective that is?"

This critique was taken up with gusto by Peter Drucker, the nonagenarian management guru, in a 1999 interview with Philanthropy magazine. "Far too many nonprofits believe that good intentions are sufficient," he said. "They lack the discipline -- the imposed discipline of the bottom line." Drucker, whose Peter F. Drucker Foundation for Nonprofit Management trains nonprofit managers, further observed, "Nonprofits today are probably pretty much where American business was in the late 1940s, with a few outstandingly effective, well-managed companies, and the great bulk of them at a very low level. In the business world, the average has risen dramatically. Yet today, the vast majority of nonprofits are not so much badly managed as not managed at all."

As for the Carnegie, Ford and Rockefeller foundations, Drucker dismisses them as "grantmaking machine[s]" that have not made an impact for decades.

Nor are those venerable foundations, which do not seek new donations, likely to feel the market pressures of the new philanthropy. Indeed, they -- and other big-name charitable outfits such as Lilly, Getty, Kellogg and Pew -- are sitting on billions of dollars of endowments and sometimes have trouble giving away the required 5% of assets annually, especially after a market run-up. No wonder professional fund-raisers quietly deride some foundations as "parking lots" that prevent wealth from reaching charities.

It is equally clear why some donors worry that nonprofits form a cozy, clubby world where top officers go first class all the way. That is certainly not the case at the tens of thousands of small, program-focused nonprofits operating on a shoestring. Donors want to know whether these organizations, large or small, are efficient and effective. And they wonder if their money is going to strike at root causes or simply to alleviate suffering. "Rather than feeding homeless people, I'm more interested in preventing the problem in the first place," says Steve Kirsch.

C riticism of conventional philanthropy is nothing new. It began with the original robber barons-turned-Robin Hoods, notes Leslie Lenkowsky, a professor at the Center on Philanthropy at Indiana University. John D. Rockefeller, who modeled his foundation on Standard Oil, wrote a 1907 essay on "The Difficult Art of Giving." Andrew Carnegie, in his book The *Gospel of*

Wealth , wrote that 950 of every 1,000 charitable dollars were "unwisely" spent, because of gifts that lacked strategy and fostered dependence.

The most radical challenge to conventional checkbook philanthropy, and one that has energized many of the big New Economy givers, is venture philanthropy, also known as social entrepreneurship. The movement's manifesto was a 1997 Harvard Business Review article, "Virtuous Capital: What Foundations Can Learn from Venture Capitalists." (Ironically, the authors' work was funded by grants from Rockefeller and Pew.) It focused on "the organizational issues that could make or break the nonprofit," urging nonprofits to build up their management strength. Venture capital practices that might translate from the business sphere include risk management, performance measures, closeness and length of relationship, amount of funding and exit strategy. For some venture organizations, these tenets are a set of operating principles; for others, they are a metaphor.

Paul Shoemaker, a former Microsoft executive who runs Seattle's Social Venture Partners, says the venture philanthropy tag has "gotten thrown all over the place. In our case, it means long-term, sustained relationships with nonprofits; imparting business skills and expertise as well as money; a focus on giving general operating grants; and trying to be invested. These organizations need more than money; they need human and financial capital. Each part is necessary but insufficient."

With some 275 "partners" donating a minimum of $5,400 annually for two years, SVP last year distributed $1 million in grants to local nonprofits specializing in education and child welfare: personalized tutoring, poetry workshops for 6th graders, home interventions, adoption and pregnancy counseling, retreats for teachers to help them avoid burnout. SVP donors might get involved with management or financial consulting, mentoring, marketing or helping with Web or computer projects. SVP funds have sprung up in eight other cities, and not all of the donors are young and techy. Phoenix has real-estate givers; some Dallas benefactors are in the financial services industry.

By and large, nonprofits welcome the venture philanthropists' input as much as their dollars. "Everyone I've spoken to with a venture philanthropist on board views it as a godsend," reports Albert Ruesga, director of New Ventures in Philanthropy, which despite its moniker is a program of the mainstream Regional Association of Grantmakers. "To have someone who cares enough about the organization stick with it and give time as well as money, I'd cry tears of joy," he says.

Bill Jackson runs greatschools.net (greatschools.net), an online guide to schools in California and Arizona that received seed money from New Schools Venture Fund, a Silicon Valley-based venture philanthropy group, and from traditional funders. He says the fund is "good at helping you think through what the product is, what the target market is, in a business way that education nonprofits never get into. They helped us find board members, make strategic connections to new states and [conduct] public relations. There was an early conversation about whether we should be nonprofit or for-profit, and that's a talk you wouldn't have with a foundation."

While the venture philanthropy movement has captured the nonprofit world's attention, it is far from a mainstream movement, and Shoemaker doubts it ever will be. "It's pretty darn small, probably two percent as a proportion of all giving," he figures. "Think of us as venture capital versus banks. You need both, but banks are much bigger. Most of the money is in traditional foundations, just as it is in banks, and always will be. We're not for every giver."

One of the raps against venture philanthropy is that its intense focus on measurable results -- the so-called "social return on investment" -- is difficult if not downright distorting. "Some things, like literacy rates or immunizations, you can measure quite well," notes Dot Ridings, president of the Council on Foundations. "But some of the most intractable social problems are the hardest to get a handle on in terms of success. When I see this enthusiasm for measurable outcomes, I just hope donors are realistic and won't be disappointed when they can't 'end poverty.' "

"Any nonprofit executive will tell you, 'God, our donors are pushing us for all these numbers and results,'" reports Bruce Sievers, executive director of the $240 million Walter and Elise Haas Fund and a critic of venture philanthropy. "A lot of this is just making up numbers because you want to show something hard and numerical to investors. I'm not against precision in measurement, but sometimes it's artificial or it becomes teaching to the test. You're trying to measure the intangible and it can become absurd."

Sievers is glad venture philanthropy is energizing new donors, and believes the attention to management strength and entrepreneurial spirit at nonprofits is all to the good. But he finds parts of the model unhelpful even as metaphor. Nonprofit work lacks the clear bottom line that makes keeping score relatively simple in business, for one thing. Some venture shops emphasize "scalability," or taking good ideas or programs and replicating them. "That may be more efficient," he says, "but the nonprofit loses the ability to be pluralistic and respond to local needs, precisely the way people charge the government or General Motors with being huge and inflexible."

Taking an organization to scale is a tricky task for both traditional and venture givers. "I've seen donors overwhelm an organization with money," says J.P. Morgan's Hildy Simmons. She tells of a storefront organization in Manhattan with an interesting take on education: "A donor, with the best intentions, gave them money to replicate it all over town, and the budget went from $350,000 to the millions. But the money was for programs, not infrastructure, which was basically a charismatic leader and a couple of staffers. In the end, the organization went out of business."

A fundamental tension exists between nonprofits and more activist donors. In caricature, on one side are fuzzy-headed do-gooders who, alas, don't know how to get things done. On the other are a bunch of spoiled rich kids bossing around charitable agencies, who will get bored or drop out once their stock options tumble. Paul Shoemaker dismisses this as parody: "The last thing we're gonna do is tell people how to run their programs. It's all about core competency. If you send a businessperson to create a program to help kids it's a disaster. There are individual people who do dumb philanthropy, and there have been for ages."

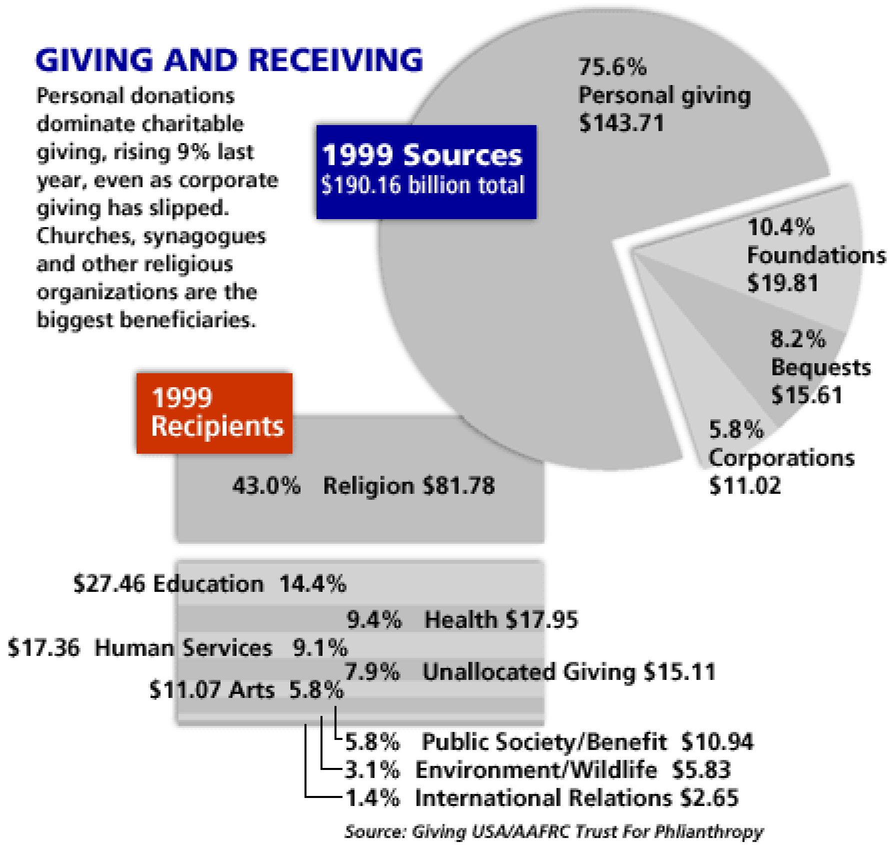
Optimists call this friction between the for-profit and nonprofit mindsets a natural "getting to know you" process, the learning of a common language. The gap is often large. Bruce Sievers remembers one gung-ho giver asking, "Remind me -- in the nonprofit world, are we supposed to crush the competition?"

Business people may find it difficult to inject sound business practices into this alien culture. "It can be extremely frustrating," says Chuck Frank, the auto dealer. "As an entrepreneur, I'm used to saying, 'Here's how it's gonna be.' I've seen a lot of changes for the good, but it's been a long, tenuous road to get the professionalism and focus on customer satisfaction into the social service system."

Established philanthropies are well aware which way the wind is blowing, and are trying to engage this new breed of benefactor. "In the old way, you'd sell the donor on what you're doing and get a check," says Sierra Club's Rochelle McReynolds. "In the new way, you go to a donor and ask what they're interested in. It's less about sales and more about listening."

Sierra has tripled its major gifts -- $10,000 and up -- in the last three years by "taking a more proactive role in educating donors and explaining what we do," says McReynolds. It has carved out eight program missions, including urban sprawl, commercial logging, water quality and global warming, to which donors may target their dollars. "That's more tangible," she says. "We tell donors, 'We're going to partner with you to do X, Y or Z,' a program you can see action on in your lifetime," such as the successful campaign to have Sequoia National Forest in California declared a national monument. The downside, she adds, is that "more and more money is becoming restricted. People say, 'I want $25,000 to go to grizzly bears,' instead of letting our program people decide where best to put it."

Even the venerable United Way, bouncing back from a scandal in the early 1990s, has become donor-focused. "We're seeing a major shift in our source of funding," reports chief executive Betty Beene. "Ten years ago, less than 14% of our money came from gifts of a thousand dollars or more; now it's 25% and the fastest growing part of the campaign." Last year United Way raised $3.8 billion, and overhead at local chapters hovers around a quite reasonable 15%. "The measure used to be simple efficiency -- keep costs low and output high," she says. "Now the issue is not so much output as outcomes. I am presenting a donor an opportunity to change the quality of life in his or her community."



The 1,400 local United Way campaigns choose their issues city by city. In Atlanta, where crime is the chief concern, United Way funds a raft of programs aimed at underlying factors that prevent crime, from safe after-school programs to getting parents involved in education to supporting home ownership. The Seattle chapter focuses on hunger and homelessness, working closely with local government. In Albuquerque, the organization is so intent on donor satisfaction that it offers a money-back guarantee. "We're not your father's United Way," says Beene, "but we haven't spent much time shouting about ourselves."

Consider Brad Busse, president of Daniels & Associates, a media/telecom investment bank in Denver, and a million-dollar United Way donor. "My wife and I wanted to do something impactful in our community," he recalls. "Our hot button was giving every kid a chance for a fair start in school. United Way identified a program of seven child-care centers serving 700 of the most at-risk kids in Denver. They helped pool resources and made a contribution as well." Busse personally supported scholarships and bonuses for teachers and created a toy lending library.

Busse agrees that "more and more donors want to know the impact of their gift, and United Way was very clear about what we were trying to accomplish and measuring the results. When you've got the government, education, nonprofit and business systems working together, you can do much more with your investment, and that's United Way's role. It's about as synergistic as you're going to get."

While the recent changes in the philanthropy world are certainly healthy, some argue that they are not altogether new. "It's a rebirthing process," says Jeff Shields, a vice president at U.S. Trust in Palo Alto who advises donors. "Philanthropy makes itself over every once in a while. It doesn't matter that most of the elements aren't entirely new. The more ownership people take, the more exciting it is and the more money there is for philanthropy."

The huge piles of Baby Boomer wealth available for good works have drawn a great deal of anticipation. But it may be the way that donors are creatively integrating their giving into their work, families and communities that truly heralds a new golden age of philanthropy.

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Doing Well By Doing Well

Who would have thought charity would become a hot product for Wall Street? The success of the Fidelity Charitable Gift Fund, with $2.5 billion in assets, has already spawned a handful of similar funds from the likes of Vanguard, T. Rowe Price and Eaton Vance. Meanwhile, investment firms by the score offer an increasing range of philanthropic services as part of their siren call to their well-heeled clients.

As Baby Boomer wealth mounts -- according to Spectrem Group, there are over seven million U.S. households with net worths of over $1 million -- so does the competition among banks and brokerages. J.P. Morgan, U.S. Trust, Goldman Sachs and Citigroup all offer advice on philanthropic giving through their private banking operations. "Everybody's looking at those who will get this great wealth transfer," says Bob Seaberg, director of philanthropic services at Citigroup's Salomon Smith Barney. "Clearly, everyone from financial planners to those associated with broker-dealers is looking at these clients and talking about charitable giving."

Of Citigroup's 20,000 private banking clients, Seaberg figures "a clear majority use charitable planning as part of their overall financial strategy. The interest level is really extraordinary. I do seminars on the charitable side of wealth management, and the turnout is greater than for a talk on, say, market volatility. It's testimony to the importance of charitable giving in people's lives. They want to understand it and do it better."

For those who don't feel they need the battery of trusts and family foundations that are the expertise of advisers like Seaberg, donor-advised funds offer a much simpler approach to giving. A donor-advised fund is a sort of philanthropic checking account that allows you to deposit your money now -- and take the tax deduction now -- but decide where the funds go later. Here's how it works: A donor makes an irrevocable gift to the fund, which is based at a financial institution. The money is then pooled with other donations and invested, much like a mutual fund, and withdrawn when disbursements are made.

Disbursement recommendations, it should be noted, must be approved by the fund's trustees. But Ben Pierce, head of the Vanguard Charitable Endowment Program, says they almost always are. The most common reason for a turn-down, he notes, is when there's a private benefit for the donor. "People have asked to pay for an operation, tuition, orchestra tickets, or a local golf outing," says Pierce. "Usually, they understand why we won't do it."

The Vanguard fund, with 1,400 donors and $195 million in assets, has a grant staff of only two to advise clients on giving. "Most of our donors seem to know where they want to give," a spokeswoman explains. Expenses and fees are flat and run about 0.7% of assets annually. We try to make things real simple and understandable and Vanguardian," says Pierce.

Fidelity is pricier, charging up to 1.69% in fees and expenses, though there's a sliding structure for accounts over $500,000. Cynthia Egan, who heads the fund, defends those costs by pointing to a lower entry point (just $10,000), tiered pricing, a topnotch Website and strong investment performance. Unlike some private foundations, this fund is no parking lot for wealth. Giving usually exceeds 20% of assets across the fund, far above the 5% minimum. Through the first three quarters of this year, the fund has taken in $627 million and given out $455 million.

Egan is proud that the Fidelity fund is already the country's third-largest public charity and No. 1 grantmaker. These funds are playing a large part in the democratization of giving, which was once a province of the ultra-wealthy, she adds. "Look at how mutual funds opened up the stock market and 401(k) plans opened up retirement. I think it's a giving model whose time has come."

-- *E.S.*

The Giving Game

Financial-services firms have jumped on the philanthropy bandwagon with donor-advised funds, which allow you to give now and decide who gets the money later.

Fund	**Assets**	**Fees**	**Minimum**	**Phone**
Fidelity Charitable Gift Fund	$2.5 bil	0.7 - 1.69%*	$10,000	800-952-4438
National Philanthropic Trust**	230 mil	1.25 - 2.00	25,000	888-878-7900
Schwab Fund for Charitable Giving	100 mil	0.57 - 1.13*	10,000	800-746-6216
T. Rowe Price Program for Charitable	new	1.16 - 1.27*	10,000	800-690-0438

Giving				
U.S. Charitable Gift Trust (Eaton Vance)	41 mil	2.95	10,000	800-225-6265
Vanguard Charitable Endowment Program	195 mil	0.7	25,000	888-383-4483

*Costs drop for bigger accounts (usually over $500,000) and/or vary based on the investment pool chosen.

**Assets in the National Philanthropic Trust are managed by J.P. Morgan, Credit Suisse Asset Management and Legg Mason