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On the Frontlines

Robbing the Grandchildren

Foundation's shortsightedness is jeopardizing the planet's future

By Charles Conn

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Robbing the Grandchildren

Foundations' shortsightedness is jeopardizing the planet's future by Charles Conn

If future generations could vote on how foundations invest their money today, would they choose the current allocation? Byron Swift, chair and executive director of the World Land Trust, suggested this thought experiment to me, and I am disturbed to find that my answer is no.

Human-caused climate change, sharply declining conventional energy sources, and population growth are threatening the very platform of human life. Yet fully two-thirds of U.S. foundation spending goes to current human health and well-being, and seven of the 10 largest U.S. foundations concentrate on human health or the arts, according to the Foundation Center's latest statistics (from 2004). The world's second largest foundation (Stichting Ingka, the IKEA fortune) focuses on *interior design*.

Meanwhile, only 5 percent of U.S. foundation spending goes to the environment, and a paltry 2.9 percent goes to science and technology. Of the top 50 foundation grantees in 2004, only three were environmental organizations. Even those foundations that do work on ecosystems spend much of their resources on small-scale land conservation. Government priorities are also skewed to the here and now. As the Oct. 30, 2006, *New York Times* reports, U.S. federal spending on energy research has fallen to $3 billion – less than half of its level in 1980 – while spending on medical research has quadrupled to $28 billion over the same period.

Alleviating current human suffering and supporting the arts are worthy goals, to be sure. But foundations are letting the important crowd out the essential. Without progress on well-functioning ecosystems, stable climate conditions, clean energy, and sustainable population, improving human health and happiness is likely to be a short-term outcome at best. It is a hackneyed image, but foundations are mostly rearranging deck chairs on the planetary Titanic.

U.S. charitable foundations are better positioned than companies, governments, and universities to address these long-term, potentially catastrophic problems. One of the few sources of long-term risk capital, they control more than $500 billion in assets, generating funding that with other charitable giving totals almost 2 percent of GDP. With Warren Buffett's gift, the Gates Foundation alone will control more than $60 billion in assets and $3 billion to $5 billion in annual spending. Other foundations closely associated with the digital revolution (such as Dell, Ellison, Packard, Hewlett, Moore, Omidyar, Page and Brin, Yang) could account for at least $50 billion to $70 billion more.

Perversely, though, many of these new tech entrepreneurs are worsening foundations' shortsightedness by implementing businesslike metrics and controls in a way that reinforces short-term thinking and behavior. Other questionable management practices, such as low payout rates and lack of coordination with other organizations, further aggravate foundations' myopia. If we in foundations are to go beyond alleviating current human suffering to protecting our very existence, we must hold ourselves to higher standards.

A Bad Business

A recent movement, sometimes called philanthrocapitalism or venture philanthropy, seeks to avoid complacency and lack of focus in foundation management by introducing rigorous success metrics and accountability practices. Many of these new-style foundations limit their scope to a few problem areas and, like corporations, intensely monitor outcome metrics, often with tight windows for review. To those of us who came to foundation work after a career in business, this sounds eminently sensible; after all, the foundation world is littered with fragmented, unfocused, and failed programs.

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Although there is much talk at these foundations about making large, "leveraged," "focused," "accountable," and "multigenerational" commitments to critical problems, the evidence is often at odds with the rhetoric. With their position and pay now tied to near-term metrics, foundation managers aim lower. They pick modest programs with highly constrained objectives that they know they can meet. Or they fund noncontroversial "studies" instead of action. They add layers of bank-like process and control. With quarterly or semiannual hurdles for success, what program officer or foundation leader would choose to take on big, long-term, and risky objectives like contributing to lowering population growth or affecting climate change?

This short-term, metric-focused approach likewise hampers grantees. Foundations take the passionate and committed people in these institutions and harness them to near-term indices of progress. Grantees, in turn, stop playing the long-term game in order to keep the money flowing. They aim lower, too.

Legislated payout minimums – which have actually become maximum payout ceilings in many foundations that want to be in business in perpetuity – also keep foundations' gazes off the horizon and on the next quarter. The trade-off for keeping foundations alive forever is not solving social and environmental problems today. And as many have argued, solving these problems today has more value than slowly solving them in the future. For example, dealing with the mass extinctions and social dislocations that a 5- to 7-degree hike in temperature will bring about within 100 years will likely be pricier than preventing that increase in temperature now.

Foundations should save some "dry powder" for future problems. But many currently do real harm by granting exactly their 5 percent legal minimum, rather than spending what good long-term programs demand. Indeed, come December, many foundations frantically cut high-quality programs – or quickly approve half-baked ones – to meet their legal payout minimum. The Gates Foundation recently announced that it will spend at a rate that will exhaust its assets within 50 years of the death of the founders, but few others have followed suit.

A final management problem that keeps foundations preoccupied with the present is their lack of coordination with other organizations. With family control of many foundation boards and disparate and idiosyncratic board agendas, coordination for achieving bigger aims is structurally difficult.

There are forums for foundation staffs to communicate with each other, of course. But these rarely lead to cooperative programs across foundations that attack big societal and global problems, coordinate funding over longer periods, or share the larger risks these problems pose.

Some argue that donors made the money and therefore get to choose the foundations' objectives and management approach, however suboptimal these may be. But that isn't correct. Because foundations get favorable tax treatment, the public has a legitimate interest in the quality of their outcomes. The public can say, "We aren't aiming high enough."

Rugby, Not Linear Algebra

If foundations are going to provide the risk capital to help protect the planet for future generations, we will have to develop strategies that are more like rugby than linear algebra – multiple, overlapping, and moving toward success over time. We can't apply simplistic definitions of success to problems at the scale of climate change or population growth. We need milestones that reflect the complexity of the problems we are addressing, and we must not clip the wings of promising approaches just because they have not delivered in three or five years. We must also coordinate with other risk capital providers, private and public. We will need to appoint critical outsiders, such as scientists and experts, to our boards of directors, to hold us to more courageous standards.

A few foundations are changing their focus to the longer term. In April, the Doris Duke Charitable Foundation pledged $100 million over the next five years to fund research on reducing global warming. And Richard Branson's foundation has offered a $25 million prize for an economically viable process to remove greenhouse gases from the atmosphere. But on other fronts we appear to be slipping back. Buffett had long focused on population control, but in his bequest letter to the Gates Foundation he makes no mention of this or any other specific priorities.

Here is a respectful challenge to foundation leaders: Band together and direct some of your resources toward a long-term, stable, and sustainable ecosystem – the true basis for human well-being. This will be hard work. But if we shrink from the challenge, what social organizations will fill the gap we leave? Will our children's grandchildren forgive us if we shy from the work in front of us? □