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STANFORD SOCIAL INNOVATION *review*

Q&A

Jeff Raikes

Interviewed by Eric Nee

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Jeff Raikes takes over the Gates Foundation at a turbulent time when philanthropic resources are down and social needs are up.



JEFF RAIKES GREW UP on his family's 3,000-acre farm near Ashland, Neb. He learned to drive a tractor at age 7, and by age 9 he was working evenings and weekends in the cornfields. He left Nebraska for Stanford University, planning to pursue a career in agricultural policy. Bitten by the high-tech bug, Raikes stayed in Silicon Valley after graduation and joined Apple Computer. After a two-year stint working for Steve Jobs, Raikes ventured north to join Bill Gates at Microsoft. Over the next 28 years Raikes led many important tasks, eventually becoming one of the software giant's top executives.

Last fall, Raikes was named CEO of the Bill & Melinda Gates Foundation. Raikes didn't have much experience in philanthropy, but he did have Bill Gates' trust. And when you are in charge of spending several

billion dollars of the Gateses' money each year, it is essential to have that trust.

In this interview with *Stanford Social Innovation Review* Managing Editor Eric Nee, Raikes discusses the reasons that Bill and Melinda Gates selected him to lead their foundation. He goes on to explain how managing a foundation and managing a business are similar, particularly when it comes to taking risks and investing for the long term. Raikes also talks about why the Gates Foundation increased its grantmaking by close to 10 percent in 2009, even as the foundation's endowment fell.

Eric Nee: When you were at Microsoft you were known as one of the few people who could stand up to Bill Gates and Steve Ballmer. Is that true? And if so, how

important is it to have somebody like that as CEO of the Bill & Melinda Gates Foundation?

Jeff Raikes: I might articulate it a little differently. I would certainly say that I had earned the respect of Bill and Steve, and Bill will listen to people who have a point of view. Even though Bill will frequently have a strong point of view, he enjoys the intellectual debate, and I'm comfortable with that too.

Is that one of the reasons that they hired you to lead the foundation?

It was one of my stronger attributes. My wife and I have been quite involved in philanthropy for many years, but I didn't work full time in philanthropy before this role. I know that one of the things Bill and Melinda were looking for was somebody whom they

could work with effectively. They need to have somebody who can be a great collaborator with them as they define and refine the strategies of the foundation. I need to be a bridge to the rest of the people working at the foundation, making sure that feedback is heard by Bill and Melinda either directly or through me. I think that their comfort level with my ability to do that, given that we had prior working relationships, was an attractive element.

What are Bill and Melinda Gates like to work for?

Bill and Melinda have a great partnership. They enjoy working with each other. There'll be times when there are things that Bill is more interested in and other times when there are things that Melinda is more interested in, but they're both actively engaged with the work of the foundation.

Bill is an amazing talent. The breadth and depth of his knowledge in a wide range of subjects is unbelievable, and his ability to integrate those ideas is quite inspiring. He's a demanding person to work for. He expects results. I like that. He's got a great sense of humor, much more than probably most people see from a distance. Bill's great strengths—which I saw both at Microsoft and here at the foundation—are that he's ambitious and driven to make progress.

I've known Melinda a long time, but one of the things I've enjoyed most at the foundation is getting an opportunity to work with her more closely. She has a lot of good feedback and insights on the organization. I find her to be a great collaborator on the things that we can do to make sure that this is a great environment for people to do their best work.

What changes should we expect to see at the foundation now that you are CEO?

Patty [Stonesifer, the former CEO of the Gates Foundation] did a terrific job of leading the foundation, and so part of my opportunity is to build on the momentum that she and the leadership team created. We don't plan to make any major shifts. The foundation's focus on the disease burden in the developing world with our global health program, helping people exit from extreme poverty with our work in global development, and improving educational

success here in the United States, both at the high school graduation and college preparedness level as well as postsecondary success—those areas of focus will continue to be the same.

There are probably some things that I bring from my business experience that will be appropriate and useful tools in this environment. One of these is my experience in high-growth organizations: Keep in mind that the foundation has more than tripled in size in the last three years. For example, when I was at Microsoft I used a scorecard to ensure that the organization was aligned around key objectives or the highest priorities. We used the scorecard as a communication tool so that people were up to date and so that we were holding ourselves accountable to those objectives.

You mentioned that you were involved in philanthropic work before joining the foundation. Some of the programs that you've funded are ones that one might expect, such as giving money to the University of Nebraska because you're from Nebraska. But one program surprised me: You and your wife are big donors to Stanford University's Center for Comparative Studies in Race and Ethnicity. What's behind that gift?

For three out of the four years I was an undergraduate at Stanford I lived in the black cultural theme center called Ujamaa House. That gave me a great appreciation for some of the issues, challenges, and opportunities for diversity in our society. The gift to the center came from a strong belief that during the next 30 years we're going to see some interesting demographic shifts in society, like the growth in diverse populations here in the United States. I used to think that this was just a U.S. issue, and then I saw the riots outside of Paris four years ago, which convinced me that demographic shifts worldwide were going to put a lot of stress on society. My hope is that Stanford will train future leaders of public and private institutions more than just to cope with those demographic shifts, but actually to use them to our advantage.

The Gates Foundation has spent a large amount of money trying to improve secondary education by creating smaller public high schools, particularly in New York City. In the

foundation's most recent annual letter Bill Gates wrote that creating smaller schools did not have the desired effect, and that the foundation was shifting gears. Why did the foundation spend so much money over such an extended period of time on something that turned out not to be as effective as expected?

That's part of what you should expect from effective philanthropy. You should invest in areas where either the public or private sector is not incented to do so or is not capable of doing so. We'll take on things that are probably a little more risky and a little bit more speculative. You might think of it as social venture capital. My read on the situation is that small schools in and of themselves didn't consistently have the impact we wanted. There were some small schools that we'd invested in that did make great progress, and some where there was little progress at all. The conclusion was that structure helps, but at the end of the day it's only a part of an overall solution where, in particular, teaching effectiveness is very important.

So in some respects I would say that the investment was necessary because it helped get us into the area and learn. It's a little bit like my experience at Microsoft. I got started in our applications business in 1981. We bet on building software for lots of different computers. As it turned out, that didn't matter to people much. What was more important was having the best applications for the computer they had. So we had to shift our strategy. We learned from making a bet that didn't pan out the way that we had hoped, but we were better off for having made the bet and gotten into the game.

I would use that as a rough analogy of what I think has happened here. We bet on smaller schools as a structure, and we do still believe that encouraging close ties between teachers, students, and the administration is very important. But we're putting a particular emphasis now on empowering effective teachers. How do you cultivate, identify, and reward effective teaching? How do you have fewer, clearer, and higher standards?

I would say that having better data about what is working and what isn't working in a school at an earlier time would have helped us and helped others. I'm excited to see that

now people are coming to recognize the importance of that. In fact, if you look at the education portion of the Recovery Act, I think there was at least \$250 million specifically targeted toward better data and standards in education. So we're all learning from these investments. And being open in our annual letter about that learning is part of what we have to do. We have to make sure that we're sharing what we're learning, both positive and not so positive, so that others can benefit from it.

The feedback loop in business is much better than it is in philanthropy. When you introduce a product or service, people either buy it or they don't buy it, and you often learn that pretty quickly. And the data—such as unit sales or revenues—are readily measurable. But in education



There are aspects of the private sector where you're involved in long-term R&D that are very similar to the work that you might do in philanthropy, and fortunately for me, most of my career has been involved in that kind of activity. In that type of situation you have to have a clear vision, define milestones, and track your progress using your best judgment with a lot of self-criticism, because you know it could be a long time before you really know the impact.

Is that how the Gates Foundation approaches its work?

I believe in continuous improvement, and

I would say that the Gates Foundation has made a lot of good investments in that area. For example, I really like the work that our Impact Planning and Improvement group, led

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the feedback loop is not as apparent. It often takes a long time to know the impact of a program, because you have to measure it over time to see the impact on students. And the data are much more fuzzy.

I agree and I disagree. Business isn't as homogeneous on that point as people like to think it is. I'm on the board of Costco, and Costco does get to see daily sales. But I also led an R&D organization for Microsoft, and when you're making long-term investments in technology, you don't have the frequent market signals that you do in other parts of the business. For example, I came to Microsoft in 1981 to create a graphical suite of productivity applications—what ultimately was called Microsoft Office—and we didn't really turn the corner on Microsoft Office until about 1993 or 1994. A lot of our ongoing commitment was our belief that we were headed in the right direction, and in some cases it took years before we were really able to ascertain in the marketplace that that was the right bet. In 1988 I started our tablet pen computing work, but it wasn't until about 2002 that there were some good tablet PCs that came onto the market.

by Fay Twersky, is doing. That's an area where we've got some good work in place and where we're going to continue to develop, because it's absolutely critical to how we operate.

The Gates Foundation, like nearly every other foundation, has seen its endowment decline in the last year. Yet in contrast to most other foundations, you increased your grantmaking this year rather than cutting it. Why did you do that?

You want to try as best as you can to invest in building short-term momentum, but recognize that you have to conserve enough of your resources to deliver on very big, audacious, long-term goals. Bill, Melinda, and I frequently discuss what's the right way to handle this. They felt pretty strongly that this year [2009] they wanted to grow our grant payout and direct charitable activities to about \$3.5 billion. Our total payout's a little more than that because we're building a new headquarters. We were about \$3.2 billion last year, about \$2.3 billion the year before that, and about \$1.8 billion the year before that. So we were on a pretty significant

ramp. Now we're slowing our growth, and that is a direct result of the economic crisis. Although it's early right now for me to make an official statement about 2010, I would say it's very likely that we will be flat and remain at \$3.5 billion.

We did decide that we would go above the normal 5 percent payout from our endowment in 2009. The endowment was at about \$39 billion on Jan. 1, 2008, and it's now at about \$30.2 billion. That's the combination of a very significant payout plus a decline in the overall market. We're in a little bit different situation from other foundations. Our cofounders are still alive. We have been growing quite rapidly. And we have the Warren Buffett gift. But the Warren Buffett gift is a certain number of shares, and so as Berkshire Hathaway stock has declined in value, so too has the size of that gift. So those are all things that we have to factor into our decisions to strike the balance.

How has the change from the Bush administration to the Obama administration affected the foundation's plans?

We were very pleased during the campaign that both presidential candidates were willing to step forward and talk about increasing international aid, focusing in on issues such as malaria and education. Both Obama and McCain made commitments about global health and global development, and I think that's quite different from what you saw in 2004 when these kinds of issues hadn't really made the radar screen of the candidates. I also see that in other parts of the world, which has been very positive.

The Obama administration has made a commitment to double international aid over the next five years, and we're excited to see that commitment. They've been great advocates for what needs to get done in the education sector. We've worked closely with Secretary of Education Arne Duncan, and we're very pleased with the work that they're doing. So it's been a very good collaborative relationship with the Obama administration, and an appropriate relationship. They have sought our feedback and input, and we've stepped forward and been quite willing to provide our support for these initiatives because they play a very important role in global health, global development, and education. ■