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STANFORD SOCIAL INNOVATION *review*

15 Minutes

Melissa Berman

Advising old foundations & new donors

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Melissa Berman, president and CEO of Rockefeller Philanthropy Advisors, announcing the Dominican Community Bridge Fund.

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Rockefeller Philanthropy Advisors traces its beginnings back to 1891, when John D. Rockefeller Sr. first put in place a professional staff to manage his philanthropic efforts. Today, the firm provides its services to a wide variety of foundations and donors around the world – more than 100 in the last decade. As president and CEO of Rockefeller Philanthropy Advisors, Melissa Berman regularly meets with the leaders of the nation's oldest and largest foundations. She also spends a good deal of her time with scores of young people who have recently made their fortune, helping them decide how to give it away. So if you want to know what's on the minds of the people who control philanthropy's purse strings, Berman is the one to talk to.

During the last decade the number of foundations has markedly increased. Is this good news for nonprofits, or is there a downside to the growth?

Basically it is good news and will continue to be good news for nonprofits. The level of philanthropic resources seems set to rise for many decades to come. The big challenge for many nonprofits is that donors are increasingly focused on assuring themselves that their giving is having an impact. And not all nonprofits are well-positioned to do this. Understanding the impact that nonprofits are having has been a feature of philanthropy from the beginning, but the demand for it has become much more intense over the last decade. That's because just as the number of foundations has proliferated, so has the number of nonprofits. The question facing foundations and donors is this: If there are 20 orga-

nizations in your city dealing with literacy, and you care about literacy, how do you decide whom to give money to? Nonprofits have to be able to explain to donors what their approach is to solving the problem, and then demonstrate that it works.

Many nonprofits complain that this has too often translated into unreasonable or ill-fitting performance metrics.

It's a critical challenge for our field to develop more sophisticated ways to measure the effectiveness of nonprofits. Looking at what percent of dollars go to the administration of a nonprofit may have some meaning, but to use it as the only tool to assess a nonprofit is just insane. Sadly, we don't have a good system yet for assessing how effective nonprofits are, and nonprofits don't have the money to develop one.

One of the great opportunities in philanthropy is for funders to invest in developing some of the success indicators and key measures for different parts of the nonprofit sector, the same sort of measures that we have in the business sector. We take it for granted that Ford Motor Company knows how to measure what its market share is, and we all know that market share is an important indicator of success in the auto industry. We don't have those kinds of measures in the nonprofit sector.

The key indicators of success for a pharmaceutical company are nothing like the key indicators for a retailer. And the key indicators of success for a social service organization are going to be different from those for an arts organization. We need to find a way for the academic community and the practitioner community to put some intellectual heft and funding behind

developing these indicators.

Many people who made lots of money at a very young age are now turning their attention to philanthropy. They have a lot of energy, ideas, and time, and often want to get personally involved in the projects they fund. Is this a new phenomenon?

In the '60s there were a lot of donors, some of whom we're still working with, who started new nonprofits and were very entrepreneurial about it. In the golden age of philanthropy, Carnegie and Rockefeller and some of the others were not much older than the people we see today. They were the Bill Gateses of their era.

Bill Gates is an icon for what he accomplished as a businessman. Are Bill and his foundation having the same impact on philanthropy that they had on the business world?

The Gates Foundation has had a huge impact on how people think about the potential of philanthropy, both by tackling global issues and by putting a spotlight – which had vanished for almost 20 years – on the diseases of the developing world, to say, “This is a solvable problem.”

How is that reverberating among people who are setting up foundations now?

While they recognize that they don't have the resources that the Gates Foundation is fortunate enough to have, they're far more willing to think about whether they too could have an impact on solving problems. In fact, we see people of all ages being much more interested in having a personal involvement in their philanthropy, as Bill and Melinda Gates have done. Oddly enough, when donors engage

our services, it isn't because they want to be hands-off and have us do all the work and they just show up at the opening. It's the opposite. They want to have much more in-depth knowledge and involvement in the projects they fund. But that actually takes a lot of work and preparation and research and scheduling. That's why they often turn to us.

Some of these new philanthropists launched the venture philanthropy movement. Was that just a fad?

Many of the values and principles of venture philanthropy are enormously valuable. I see many of those enduring in a couple of ways. One is a sincere attempt to do what we talked about earlier, which is to understand what it means for a grant to be effective. That's a very important contribution that the venture philanthropy movement made.

The second thing that they were responsible for, and that I wish would spread further, is a much more sophisticated understanding of how a nonprofit actually operates. They understand that the operations and management of a nonprofit really matter. That's absolutely contrary to insisting that all the dollars go into program, and that nothing can go into administration. Many of the people who were involved in venture philanthropy, and still are – no matter what they call it – want to understand what the operating systems of a nonprofit are, and what operating systems it needs if it's going to get to scale. They tend to look at the nonprofit as a complete entity, not just as a producer of programs. I think that's very important.

Are new donors more impatient with the pace of nonprofits?

Sometimes new donors can be a bit

impatient. They want to know whether they can solve the education problem in the next three or four months. But most of these new donors are impatient with inefficient systems. They ask very basic questions about how an organization works, and the answers aren't always good because the nonprofits are often understaffed and underfunded.

They may also be impatient because businesspeople and nonprofit people don't always speak the same language. There's a lot of miscommunication between the two. As donors become more experienced, and are in a different phase of their life, they tend to have different strategies for making change. Younger people are more apt to say, "OK, I want to pour my heart and soul into this organization and I want to turn it around and really see it start to soar." Donors who have a lot more experience in life are much more in a systems-investor kind of role, where they're saying, "OK, now what are the key levers in the system that we call education, and how can I strengthen those institutions that play that key role?" That has more to do with where people are in their life cycle, not necessarily how they made their money or what time zone they live in.

What problems do newer donors want to tackle?

Younger and newer donors have a very solutions-based approach, which is great. They have less tolerance for large institutions and therefore want to focus on smaller organizations. They seem somewhat more committed to the idea that change happens more often at a grassroots level than at a policy level.

Does that mean that they tend to

prefer local nonprofits more than national ones?

Not necessarily, because we're also finding that many of the younger donors we're working with are extremely interested in change on a global level and are very interested in doing work in the developing world.

Why is that?

Newspaper headlines over the last five years or so have made it clear to people that you can't separate domestic and

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international issues as neatly as we used to. Also, the businesses that these younger donors came out of are far more global than businesses used to be, so they may have had more direct contact with people from other worlds.

Some of it also has to do with how much time you have. It's easier for a young person who doesn't have a lot of family responsibilities to spend three or four weeks in Haiti or South Africa than it is for somebody who has three kids in middle school, all of whom have homework.

One of the more popular trends in international philanthropy these days is microloans. Why is that?

Microcredit has been around for thousands of years within certain ethnic communities. I think it has caught on over the last 10 years because it's very

appealing to somebody who comes out of the financial services industry, because that's the model of economic growth that their entire industry is about. And it does offer a great set of measures.

The results from microcredit have been tremendous, in unexpected ways. Some studies have shown that families that have benefited from microcredit end up with higher levels of educational achievement for their kids, because suddenly it looks like there is a future. And they become advocates for better water, sanitation, and transportation systems so they can get the raw materials in and the goods out more effectively.

Market-based approaches have a very powerful appeal now. Donors are interested not only in microcredit, but also in going outside of traditional philanthropy to invest in private equity funds that bankroll small companies with environmentally friendly technologies, or with new healthcare technologies that might benefit the developing world, but that are not immediately attractive to big pharmaceutical companies. Those are all very market based and very pragmatic.

Why is there so much more interest now in market-based solutions?

It isn't so much that today's donors are different than the donors of 35 years ago, it's that the world is different. Before the Reagan revolution, government played a central role in solving social problems. Now you can't expect that. Today, we have less faith in big institutions and big systems to solve problems. That has changed the entire dynamic, not only for philanthropists, but also for nonprofits. □