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**Making Better Big Bets**

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# Making Better Big Bets

Philanthropy is poised for a grand transformation, but it will require a lot of investment, capacity building, and experimentation to get it right.

BY HEATHER MCLEOD GRANT & ALEXA CORTÉS CULWELL

**I**t has become cliché to say that the United States is entering a new gilded age of philanthropy—one that could make the original era of the early 1900s seem unambitious by comparison. The question being asked now is, will this philanthropy actually create greater impact on important problems, or will it be mere charity that reinforces an increasingly tenuous status quo?

The stakes have never been higher. The well-known Giving Pledge (where billionaires commit to donate at least half of their wealth while living) now boasts more than 180 families and \$800 billion in capital. Additionally, the next few decades will see a massive intergenerational transfer of wealth, as baby boomers pass up to \$30 trillion on to heirs, some of which will end up in foundations and donor-advised funds (DAFs). And thousands of recently minted centa- and deca-millionaires are also eager to give back and “make a difference”—total giving in the United States exceeded \$410 billion in 2017. The amount of private capital available for philanthropy has never been greater.

The problem is, the philanthropy “marketplace” isn’t set up to support effective deployment of these assets, and new donors face a number of internal and external barriers to giving. Despite decades of strategic philanthropy, social innovation, and conversations about growth and scale, the sector still lacks efficient mechanisms for matching resources with needs at the magnitude required to create lasting social change. This creates a compelling opportunity to rethink the next decade of philanthropy and build a better giving marketplace—one that motivates donors to deploy resources more effectively to solve meaningful problems.

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## FROM SMALL, SAFE, AND SCATTERED GIVING ...

The critique of the status quo goes something like this: On the capital supply side, much philanthropy is short-term, too small, overly restricted, detached from end-user needs, fragmented, and risk-averse, and doesn’t address root causes or systems change. (This is why safe bets like universities and hospitals receive so much funding.) The interests of donors direct giving, rather than market demand or real needs; and most donors don’t initially know how to give effectively. Additionally, because of federal policies, philanthropic capital is allowed to accrue in foundation endowments and DAFs faster than it is given away. Today, there are literally billions, if not trillions, of philanthropic dollars not being put to use.

On the demand side—because of how funding is structured, and because there are few barriers to entry, mergers, or failures—the nonprofit sector is highly fragmented and anemic. Hundreds of thousands of small groups struggle to survive and are unable to provide solutions at scale. They don’t have the “virtuous capital” needed to invest in the talent, systems, or growth that would allow them to eventually achieve an “end game” or hand off their solutions to government or private markets. In fact, fewer than 1 percent of nonprofits boast a budget over \$50 million, a number that pales in comparison with those of large companies.

This presents the sector with a Catch-22: Like their for-profit counterparts, nonprofits and their causes can’t grow without a large infusion of more flexible capital—but donors are skittish about funding groups that appear ineffective precisely because they are capital starved. We are hardly the first ones to note these dynamics: A number of sector leaders have been chipping away at this problem for several decades. Now, however, global challenges such as climate change, income inequality, immigration and refugees, and the very future of liberal democracy are becoming more dire. Not to mention

that philanthropy itself is provoking a backlash, with several recent books launching critiques of current giving and questioning whether donors will act against their own self-interest for the greater good. What, exactly, is to be done?

## ...TO BIGGER, BETTER, SMARTER, FASTER GIVING

How can the sector help distribute more philanthropy, more effectively and more quickly, to solve more problems? A recent article in *Stanford Social Innovation Review (SSIR)* by The Bridgespan Group made the case for “big bet” philanthropy—grants of \$10 million and up going to a single organization or cause. The authors analyzed large grants over the past decade and illustrated how critical this infusion was to scaling solutions; they also outlined barriers to big bets, including lack of donor trust and deal flow. We want to build on their thinking and provide some ideas for how to overcome these barriers.

At Open Impact, our experience advising nonprofits, foundations, and new donors—and conducting related research—may offer some insights. While we don’t have all the answers, we do have hypotheses about how to improve philanthropy’s performance as a sector, and we’re eager to dialogue with others. For starters, we believe that more giving in larger amounts is necessary but not sufficient. Rather, the sector needs more strategic giving that builds on existing knowledge, assets, and ecosystems, and that aims to solve underlying structural issues and problems. As a sector, we’ve invested decades—and trillions of dollars—in social innovation, experimentation, and learning. There is no reason to start from scratch.

The sector needs to give new donors the tools that will help them succeed and motivate them to think more expansively about where and how to deploy their capital. Likewise, established foundations of all ages, issue areas, and sizes need to share their knowledge and networks with these new donors. We also believe that

more sophisticated intermediaries are needed to broker connections between new capital and existing organizations, movements, and solutions. In other words, our sector needs to cultivate a more robust philanthropic ecosystem and build a truly functioning social change marketplace. This won't be easy, but it might just be worth it.

### WHAT DO NEW DONORS NEED?

To start, it is worth considering what new donors need to be successful. We know from our research into Silicon Valley philanthropy that new donors struggle to give effectively and that the market is not structured well to help them. Donors' business experience doesn't always translate to solving market failures or complex social and environmental challenges, and many of them are busy with careers, families, and running companies. They have little time to focus on their giving or to learn all that it takes to be an effective philanthropist. Consequently, they either end up reinventing the wheel or making safe choices with limited impact. Giving money to an alma mater, a private school, or an elite institution is both less risky and far less complicated than creating an effective portfolio on climate change, income inequality, immigration, or homelessness, for example.

Most new donors need time, experience, and trust to scale their giving. By the time a major donor is ready to make a big bet of \$10 million or more, they've usually been engaged in philanthropy for at least five to 10 years. In our experience, donors need this time to discover what issues they care about, what approaches to take, and what outcomes they hope to achieve. Most donors learn by doing: making small grants, building confidence, and then scaling up. Very rarely does a donor start out with a \$10 million gift—let alone \$100 million. Savvy fundraisers have known this for a long time, which is why they invest so much in donor cultivation. As a field, we should consider ways to make this learning curve less steep.

Donors also need more and better information about how philanthropy and social change works—and how it can be very different from business, requiring different mind-sets, tools, and approaches. To make sure their big bet is also a smart bet, donors need to understand which strategies will help create change—whether scaling up individual organizations, investing in networks and collective impact, funding movements and advocacy, or building field capacity, to name just a few approaches. They also need feedback loops, and ways of measuring their impact, to know if their grantmaking is working and to motivate them to give more.

Once these donors have identified what they care about and how to measure success, they need deal flow. To scale up their giving, donors need a pipeline of “shovel ready” deals that are large enough to absorb significant capital. Unfortunately, finding these proven organizations or causes is difficult, because of structural dynamics noted earlier. Indeed, the sector will likely need to invest in intensive capacity building to help a subset of successful nonprofits (or leaders and movements) become more big bet ready. Many new donors also need ways to outsource some of their giving—especially if they have significant wealth; if they can't “build” it themselves, they should at least be able to “buy” solutions.

Because these are complex challenges and the sector is so fragmented, donors often need trusted guides to help them with the process of learning how to be an effective philanthropist—and to motivate them to have more impact with their wealth. Whether wealth managers, family office staff, philanthropic advisors, or other brokers, we think the role of intermediaries has never been more important. In fact, we think the larger social sector and established foundations have an important role to play in motivating and guiding these donors as well.

### AN ASSET-BASED DEVELOPMENT APPROACH

As it turns out, many of the things new donors need to give “bigger, better, and faster” already exist in the sector—from information, to opportunities to experiment and learn, to actual deal flow. Unfortunately, these assets are hard for individuals from outside the social sector to find or access. In fact, existing foundations, if properly organized, could help build a more robust philanthropy marketplace by sharing their knowledge and networks, and helping new donors to experiment, learn, and scale up. If the sector can connect existing assets with new money, it might just be a winning combination.

After all, foundations and nonprofits have spent decades researching and experimenting with social change across every issue imaginable—from early childhood development to climate change to prison reform. They have been an R&D lab for society. Unfortunately, most of this information is contained in private reports, buried on websites, or held in the form of tacit knowledge by seasoned grantmakers and experts. And while there is much published on social change and philanthropy—books, SSIR articles, white papers—it is not written or distributed in a way that reaches new donors. The sector needs a more successful approach

to knowledge management and marketing, taking new donors' needs into consideration.

In addition to knowledge, donors need trusted places to give and learn. Luckily, existing foundations already have pipelines of proven, vetted, and diverse grantees. In some cases, these institutions are looking for exit strategies for their grants, creating a win-win opportunity. Established foundations should explore ways to open their portfolios to new donors: through sidecar funds, by sharing their due diligence and reporting, or by acting as a “philanthropy concierge” to curate specific investment opportunities for new donors. A few foundations have begun experimenting with this approach, including the MacArthur Foundation, which has worked with the Foundation Center to create a Solutions Bank of its proposals from the 100&Change competition.

### EMERGING MODELS FOR CAPITAL AGGREGATION

Relatedly, the field needs more high-quality intermediaries to help match more capital with the innovations, organizations, and leaders that need funding to scale. In the for-profit sector, there is a whole ecosystem of financial-service organizations and products that match investor capital with opportunities, each with a variety of risk/reward profiles: angel investing, venture capital funds, hedge funds, private equity, investment banks, mutual funds, individual stocks, curated portfolios, etc. Importantly, the social sector has begun experimenting with new approaches to capital aggregation and matching financial resources to needs. Here are a few intermediary models that we know from our work, and which are important to build upon:

- **Established foundations.** In 2002, the Pew Charitable Trusts made a counterintuitive move when—despite being one of the largest private foundations, with billions of dollars in assets—it converted to a nonprofit in order to raise additional capital from donors to fund its mission of being a global research and policy organization. While bold, this decision has so far paid off. In 2017, the Pew fundraising team raised \$41 million from outside donors, and \$429 million in 2016. Their unrestricted assets, beyond their endowment, grew by almost \$95 million in the past few years.
- **Venture philanthropy funds.** Over the last two decades, venture philanthropy funds such as New Profit, Draper Richards Kaplan (DRK), Venture Philanthropy Partners, the Robin Hood Foundation,



and Tipping Point have experimented with aggregating funding from individual donors, then re-granting to specific nonprofits and holding them accountable for results. These funds often focus on a specific issue (e.g., youth or poverty) or on funding social entrepreneurs with ideas across many issues. Even though most of their grants are less than \$1 million, these funds provide a scalable model for aggregating capital from new donors and getting traction on an issue.

- **Donor collaboratives.** An emerging breed of capital aggregation funds like Blue Meridian are similar to venture philanthropy funds but operate at a larger scale. They often aggregate more capital, fund more advanced nonprofits, make larger grants, and provide additional value to investors, such as grant coordination. A few examples include The Rockefeller Foundation's Co-Impact, started by the founding director of the Giving Pledge; Blue Meridian Partners, which was launched out of the Edna McConnell Clark Foundation to aggregate capital for youth-serving organizations; ClimateWorks, in the climate change space; and the Energy Foundation, which was an early aggregator launched in 1991.
- **Prize philanthropy.** In this case, one foundation or entity conducts a com-

petition—either explicitly focused on a prize, or via sorting through thousands of applicants to pick “winners”—and uses this process to then attract funding from other donors. In the case of MacArthur's 100&Change or the Skoll Foundation awards, the competition creates a marketplace for vetting ideas and then leverages the resulting pipeline to attract additional capital. This model borrows from for-profit markets, where competition helps the best ideas rise to the top and attract more funding. Both Race to the Top and the Social Innovation Fund under the Obama administration were good examples of this approach in government.

- **Pitch sessions.** The Audacious Project is an example of this form of big bet giving, which is similar to prize philanthropy but ends with an in-person pitch session to donors. Cosponsored by TED and Virgin Unite among others, this model uses a professional team to vet hundreds of applicants and pick finalist nonprofits. Then, interested billionaire philanthropists gather for the final pitch, where social entrepreneurs present their pre-vetted solutions, and donors can decide what they want to fund and at what amount. Several other organizations—from SOCAP to the Social Impact Exchange to Battery Powered in San

Francisco—have experimented with this pitch model on a smaller scale.

## BUILDING A BETTER GIVING MARKETPLACE

In conclusion, we think that reinventing philanthropy for a new era—and for greater impact—will require leveraging the assets of traditional foundations, bolstering nonprofit capacity, building more connective infrastructure, and experimenting with new models of capital aggregation. We believe that a new generation of donors is poised to drive enormous changes in philanthropy and that the established sector has a chance to be transformed as a result. With record growth in the number and scale of private foundations, DAFs, impact investing, and mission-oriented LLCs, donors are seeking new ways to organize their efforts and accelerate their impact. Established foundations can be part of the solution—if they want to be.

The big questions remain: Will traditional foundations, with little internal incentive to change, reimagine their roles and use their knowledge and networks to drive greater impact? And will newly wealthy donors put their money where their mouth is, and use their funds to change underlying structures and systems for the benefit of all? We hope so—in fact, we think the future depends on it. ✕

*References for this article are provided in the online version.*