

Review

**Impact Investing: Transforming How We Make
Money While Making a Difference**

By Antony Bugg-Levine & Jed Emerson

Review by David Chen

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Public Good Politics

Review by Lucy Bernholz

PHILANTHROPY IN AMERICA: A History

Olivier Zunz

360 pages, Princeton University Press, 2011

MANY OF US HAVE a mental picture of nonprofits and philanthropy as one of three circles in a

Venn diagram, the other two being government and commercial enterprise. The circles overlap in the center, but each sector also has its own functions.

Yet many contemporary observers have commented on the blurring of these sectors. Nonprofits earn revenue, companies produce environmentally beneficial products, and the government invests in social innovation. We have commercial vendors of charitable giving products, nonprofit producers of some of the world's most widely used software products, and networks of mobile phone crisis responders who don't fit into any circle. The creation of new corporate forms for good and the impact investing movement have become standard parts of philanthropy conferences. And the Supreme Court's 2010 decision in *Citizens United v. Federal Election Commission* has unleashed a new era of nonprofit activity in campaign politics.

Although all of these examples are contemporary, none of them is fully new. Olivier Zunz's book, *Philanthropy in America: A History*, tells a 100-year story of how we got to where we are today, focusing on the political choices we've made to shape nonprofit organizations and philanthropic foundations. Zunz braids together the tales of small and large donors. This is not an institutional history of major foundations, though many appear in its pages. Nor is it the tale of workplace giving, federated campaigns, or direct fundraising appeals, although those also make appearances. What Zunz does is to set the story of the Easter Seals campaign alongside the founding of the Carnegie Corporation of New York and encircle them with the public policy decisions that make both possible.

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In the years between 1913 and 1920 we fought World War I, amended the US Constitution to allow for a federal income tax, and incorporated several major foundations. The connection among these events is not the one you might expect. The foundations preceded the taxes. The income tax financed some of the costs of the war, but a large part was paid for by the voluntary purchase of bonds. And the sale of war bonds by community groups and the fervor with which neighbors engaged around this cause laid the groundwork for direct mail, workplace giving campaigns, viral fundraising, and many of the other mainstays of today's charitable world.

Zunz begins his history in the late 19th century, with the oft-told story of Julius Rosenwald financing the construction of schools for blacks living in the South. He is careful to note that Rosenwald enabled the education of hundreds of thousands of blacks, but not by challenging segregationist state governments to change their ways. This relationship between private philanthropy and public policy is the story that really interests Zunz. Through each of his chapters, from the turn of one century to the next and with close looks at community philanthropy, civil rights, the war on poverty, and international giving, Zunz returns to the political questions that surround the use of private resources for public good.

Zunz tells of presidents from Hoover to Kennedy seeking to control, influence, or partner with large foundations to provide social services, health care, and education. Not until the late 1950s do we hear stories of foundations pushing back against government policy. Once again, the issue is the education of blacks in the South.

Zunz makes rich use of a limited resource—foundation archives. So few foundations make their records available that the history of American foundations is drawn from the history of a few dozen organizations. Zunz mixes the institutional sources with biographical material, congressional record, court documents, and media coverage

to capture both the contributions and contested nature of American philanthropy.

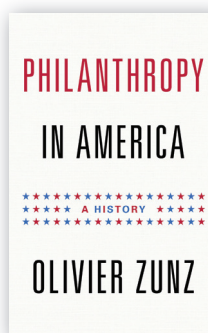
Zunz ends his book in the late 1990s and doesn't really look into the role of technology in changing philanthropy. This raises an interesting question about the historiography of organizations. Our current communication technologies will change not only how foundations work but also the public record they leave behind, which will be largely outside of their control.

The author's interest in the political privileges and limits of philanthropic institutions takes him far beyond grantmaking record and internal memos. He begins with 19th-century probate court decisions and folds in the steadily diversifying cast of regulatory characters from state attorneys general to the halls of Congress to the IRS up to the 1969 Tax Reform Act. What unfolds is syncopated progress toward an ever-elusive definition

of public good. The tension comes from a public desire to promote charitable assets, while limiting the use of such assets to influence public policy. This produces what Zunz calls the "arbitrary" divide between political and educational activities.

Zunz includes an illustrative anecdote about Lyndon Johnson. Shortly after championing the political independence of Jewish philanthropists to support Israel against the wishes of the Eisenhower administration, the senator faced a tough election challenge in the 1954 primary in Texas. His opponent, Dudley Dougherty, had the support of two nonprofits backed by an oil millionaire and a newspaper magnate. Upon his return to the Senate, Johnson abandoned his support for the political independence of nonprofits and inserted an amendment into the IRS code forbidding them to "participate in, or intervene in ... any political campaign on behalf of any candidate for public office."

This battle is, of course, ongoing. The political economy we've created over the last 100 years is a mixed system in which philanthropic resources, public agencies, and commercial enterprise all contribute to



our shared social goods. Zunz shows us that the lines of our imagined Venn diagram were never as clear or static as we thought. With impact investing, social enterprise, and social business we've increased the tools we use to apply private resources to public good. If Zunz's historical arc extends into the future, the battles over the rules for those tools will be a defining character in the philanthropic story of the 21st century. ■

Hall of Mirrors

Review by Jonathan Schorr

CLASS WARFARE:
Inside the Fight to
Fix America's Schools

Steven Brill
496 pages, Simon &
Schuster, 2011

CONSIDER THIS Twitter message from Save Our Schools, a group opposed to the Obama administration's education re-

forms, about *Class Warfare*: "Worst part of Brill's new book: Everyone's buying a copy."

It's noteworthy when a serious book about education reform makes it onto the bestseller list. *Class Warfare* weighs in at nearly 500 pages, almost a quarter of it devoted to sources and references. Chapters end on wonk-friendly cliffhangers: "It seemed that private foundation investments were actually going to bring change. Could investments by a government bureaucracy also produce results?" *Class Warfare* is selling because it's a good read, presenting the struggle to reform American schooling as a heroic tale populated by real people. But it also poses some juicy innovation questions.

Brill got interested in education while writing a scathing *New Yorker* article about "rubber rooms"—holding tanks where New York City teachers suspected of wrongdoing whiled away years at full pay. In doing so, he waded into the hottest debate in education. On one side are "reformers," who believe that the quality of teaching makes a huge difference in life outcomes for kids and that school systems need to be a lot better at getting good teachers into classrooms and bad ones out. On the other side are those, often associated with teachers unions, who

see the role of schools as overshadowed by poverty and other social ills and who see the effort to measure teachers' and schools' performance as an excessive faith in testing.

Brill makes no secret of which side he's on. In his two-year exploration of education, he found voluminous evidence that good teaching matters and argues we need to act urgently on that knowledge. He admires the leaders of the reform movement, from Jon Schnur, co-founder of New Leaders for New Schools, to former Washington, D.C., schools chancellor Michelle Rhee, whose stories he tells in humanizing detail. (Disclosures: my firm supports many of the pro-reform organizations named in the book.) The reformers stand against school districts—"the most lavishly funded and entrenched bureaucracies in America," he writes—and against teachers unions with "money and playbooks every bit as effective in thwarting the public interest as Big Oil, the NRA, or Big Tobacco."

Readers can sense Brill's wonderment at education's hall-of-mirrors politics. It is the teachers' own unions that have fought to treat them as a mass differentiated only by years of experience and academic degrees. And it is the left that defends gradualism, arguing that there's not much that schools can do about poverty. Meanwhile, the right pushes for radical institutional change and for judging school systems by how well they serve poor and minority children. The situation leaves Brill's heroes,

mostly youngish Democrats including candidate Barack Obama, asking, essentially, "Dude, where's my party?"

Brill's tale offers Bob Woodward-style close-ups as the nascent Obama administration grabs the reform baton and enacts Race to the Top, a competition that encourages state-based reforms. Yet the focus of reviewer fascination is Brill's final chapter, where he concludes that reform can't happen at meaningful scale without the teachers unions. Some have misunderstood Brill's coda as a repudiation of the previous 400 pages.

So why the last chapter? Brill has said that he was touched, late in the reporting process, by a few incidents that dramatically demonstrated how hard it will be for successful reforms to reach wider scale. Most poignant is the story of Jessica Reid, a teach-

er in a high-performing Harlem charter school whom Brill follows throughout the book, who quits over fears that the pace of her work is threatening her health and her marriage. Meanwhile, KIPP's Dave Levin worries about what it would take to give excellent training and leadership to the country's 3 million teachers. And so Brill arrives at the fundamental social innovation quandary: What will it take to go from islands of excellence to systems of excellence?

Brill ticks off a handful of solutions: paying more in salary to early-career teachers and less for seniority and extra academic degrees; eliminating "last-in-first-out" policies that target recently hired teachers for layoffs; and spending new money to boost teacher salaries. All of these are right, but we'll need to do much more. We need to do far better at connecting teacher preparation with what teachers actually do in the classroom. We need to ramp up the use of technology that helps teachers tailor instruction to students' needs and makes better use of teachers' time. We need broader measures of student learning than today's standardized tests. We need to get better at recognizing, and reacting to, both strong and weak teacher performance. And we need to get beyond our hall-of-mirrors politics, so that recognizing the impact of teachers can no longer be framed as an attack on them. ■

Shifting the Market

Review by David Chen

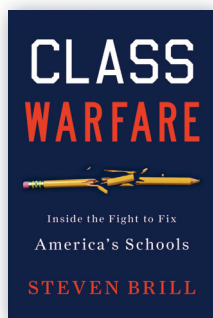
IMPACT INVESTING:
Transforming How
We Make Money
While Making a
Difference

Antony Bugg-Levine & Jed
Emerson
306 pages, Jossey-Bass, 2011

ANTONY BUGG-
Levine and Jed Emerson's *Impact Investing* marks a transition in how we think about capital as a proactive positive change agent. The central

theme of the book is that we are at an inflection point. The authors write: "The idea of impact investing for blended value—investment strategies that generate financial returns while intentionally improving social and environmental conditions—is disrupting a world organized around the competing principle that for-profit investments should

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seek only to pursue financial return, while people who care about social problems should give away their money or wait for government to step in.”

The book describes the emerging impact investing field, highlights its pioneers and leaders, and describes the conditions that will drive its growth. But the book also sets up the tensions in this transition. It asks such questions as: Will impact investing chart a smooth evolution or will it be the disruption that happens at major points of inflection and convergence? If the objective is to have impact investing strategies scale up, how will impact investment firms deal with mission continuity and organizational alignment as they transition into mainstream companies? What are the implications of impact investing going mainstream? If the principles of impact investing become accepted as sound investment fundamentals, do we transition simply to “investing for impact”?

A couple of years ago, I asked Emerson if impact investing would undergo an evolution like the one described by Geoffrey Moore in his book *Crossing the Chasm*. Moore’s central thesis is that market needs shift as early adopters transition from niche to mainstream investments (the chasm), and correspondingly new ranks of providers and leaders emerge to serve them.

Where is impact investing in this process? Bugg-Levine and Emerson do not answer this question directly. Yet during the last 30 years, there have been distinct changes in the underlying assumptions about the relationship between capital and its uses. In the early phase of socially responsible investing, the investor had to make a choice between profit and benefit (returns *or* impact). Now, with impact investing, there are opportunities where profits and impact are complementary and can coexist within a shared values framework (returns *and* impact). In the next phase, I believe that a model will emerge in which the outcome of sustainability and community benefit drives value creation and persistent lasting profits (returns *from* impact).

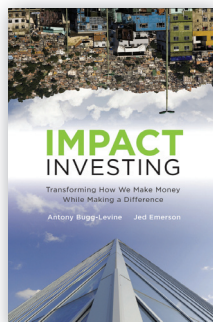
Bugg-Levine and Emerson examine microfinance’s role in the development of impact investing. They highlight the mission

continuity challenges that microfinance firms face as they enter for-profit structures and public markets, and underscore that such transitions have unintended consequences. The authors also present examples of at-scale businesses that have retained their mission, such as Patagonia. And they point to the growth of the B Corp to indicate that growth, scale, and for-profit investment do not need to be at odds with mission.

Impact investing through private equity and venture capital investments are the main focus of the book. Yet impact investing is about much more than social enterprise and venture capital.

Although the authors cover the Community Reinvestment Act and the New Markets Tax Credit, two US government programs that have channeled billions of dollars into disadvantaged communities through real estate and infrastructure investment and development, they do not plumb their importance. These programs have transformed decaying urban centers and uplifted distressed rural communities—spurring innovations in scalable impact finance by bringing together private investors, public funds, philanthropic funds, grants, tax incentives, debt, and equity. The programs have defined a powerful concept: Each type of investor wants to be rewarded in a different currency, and each defines returns in a very different way.

Today impact investing is being applied across the asset classes, in some cases reaching institutional scale and delivering institutional results. We have moved from a discussion of “good capital” to capital addressing social and environmental imperatives driven by global population growth and resource constraint. Think of firms like Lyme Timber, Jonathan Rose, Ecotrust Forest, and Bio-Logical Capital. Bugg-Levine and Emerson reference but do not fully explore the roles of these path-breaking firms. Nonetheless, they have written an important book, which defines this critical moment when mainstream investors are starting to recognize the opportunity to invest and make a difference. I look forward to their next book, the sequel that tells the story of the models and leaders in the next phase of impact investing’s evolution. ■



Go-Getters and Givers

Review by Sally Osberg

**GIVING 2.0:
Transform Your
Giving and Your World**
Laura Arrillaga-Andreessen
320 pages, Jossey-Bass, 2011

LIKE MANY OF her fellow students in the Stanford Graduate School of Business class of 1995, Laura

Arrillaga-Andreessen felt a “burning desire” to be an entrepreneur. But while they parlayed their lessons in finance and management into dot-com business plans, she envisioned a venture of another stripe, one that would harness Silicon Valley’s newest wave of entrepreneurial energy and wealth for community benefit. “I wanted to do something different,” she writes. “Instead of establishing an organization to make money, I wanted to create one to give it away.” Three years later, she launched the Silicon Valley Social Venture Fund. Today, SV2 is thriving: successfully wooing, engaging, and educating generations of Silicon Valley talent, who are great at being go-getters, to become givers.

Founding SV2 marked the end of Arrillaga-Andreessen’s apprenticeship in philanthropy and launched her on the quest that inspired and informed *Giving 2.0*. Over the succeeding 15-plus years, the author immersed herself in the field: creating and teaching graduate business and undergraduate courses at Stanford University, commissioning case studies, serving on nonprofit boards, helping design Stanford’s Center on Philanthropy and Civil Society, interviewing hundreds of fellow travelers, and learning by giving herself. She has consistently upped the ante for her own philanthropy with every new lesson learned.

From her parents, especially her beloved mother, she absorbed what it meant to leverage personal gifts of heart, mind, and time to make truly meaningful contributions. Creating an organization, however, signaled a whole new level of commitment and propelled Arrillaga-Andreessen on to the next phase of her journey in philanthropy, one that confirmed she’d found her career and her calling.

Giving 2.0 is the result of Arrillaga-Andreessen’s intellectual and experiential odyssey. From ancient practices like tithing to today’s peer-to-peer giving platforms, she shows how philanthropy has evolved. With each chapter, we are introduced to a partic-

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ular form of giving. The book begins with volunteering. We meet Hector Chau, a good-humored and accomplished Mexican American, now retired from his accounting career and volunteering for Tax-Aide in Los Angeles, which provides older low- and middle-income Americans with free, professional tax return service. Arrillaga-Andreesen celebrates him as an exemplar of effective philanthropy, as she does a diverse, engaging cast of characters from all walks of life and backgrounds. Like Chau, they've all discovered personal assets to offer their communities, a cause, the world—and set about “transforming their giving,” as Arrillaga-Andreesen writes, to great benefit.

Throughout, the author cites research that informs and validates philanthropic practice. For the chapter on volunteering, she references Stephen Post, a bioethicist at Brown University's Alpert Medical School, whose work proves the value of the “pro-social” engagement expressed through vol-

untarism. Arrillaga-Andreesen displays knowledge of the field that is Wikipedia-like in its comprehensiveness and currency. She weaves together reams of facts and statistics, references to historical influences, de-

scriptions of organizations and their approaches with an easy, graceful narrative style. In the opening chapter, she grounds us in French philosopher Alexis de Tocqueville's 19th-century travels through the young American republic, citing his observation of the natives' collective go at improving their communities. She then brings us current, noting

that some 63 million of Americans volunteer today, and goes on to describe the roles played by a wide range of organizations operating in the space: stalwarts like the Rotary Club and Junior League, government-backed entities like Senior Corps, established innovators like Civic Ventures and the web-based VolunteerMatch, and recent startups like Crowdrise and Catchafire.

Hewing to this structure, chapters cover

myriad ways of giving, and each one is followed by a “Making It Happen” section designed to help readers probe their personal motivations and apply insights to themselves, their families, and their lives. The book's appendices provide a wealth of resources, including a guide to keeping a giving journal and a bibliography.

Giving 2.0 speaks directly to the influence of millions of ordinary people whose contributions form the backbone of American philanthropy, adding up to more than \$200 billion and 8.1 billion hours of volunteering each year. A compelling, meticulously researched work, *Giving 2.0* pays its readers the ultimate tribute by assuming that they have what it takes to become powerful givers themselves. Its influence will be felt in untold acts of more informed and thoughtful giving. And its—and Arrillaga-Andreesen's—impact will be registered in the societal transformation those vastly better gifts make possible.

If you want to understand the history and future of giving, this is the one book you should read. Make a gift of it. ■

