

# STRATEGIC PHILANTHROPY: FIVE APPROACHES FOR MAKING A DIFFERENCE

THE SILENT PARTNER BEHIND AMERICA'S FOUNDATIONS®



## CONTENTS

Introduction .....	1
Checkbook Philanthropy .....	2
<i>Providing Immediate and Crucial Support to the Nonprofit Sector</i>	
Responsive Philanthropy .....	5
<i>Supporting Needs and Priorities</i>	
Venture Philanthropy .....	8
<i>Building Capacity for Growth and Sustainability</i>	
Results-Based Philanthropy .....	10
<i>Solving Social Problems by Addressing Root Causes</i>	
Collaborative Philanthropy .....	13
<i>Sharing Solutions and Building Knowledge</i>	
Foundation Source Philanthropic Advisory Services .....	15
About Foundation Source .....	16

## Introduction

As the strategic advisor to more than 500 family foundations, Foundation Source is in a position to witness the remarkable diversity of resources, personalities, interests and influences that exist in this vast melting pot called “philanthropy.” Within our client base, we have observed five common paths taken by foundations in their quest to make a difference:

- Checkbook philanthropists who provide critical unrestricted support.
- Responsive funders who actively solicit proposals in their areas of interest.
- Venture philanthropists who strengthen nonprofits for scale-up and sustainability.
- Results-based philanthropists who narrow their focus to address root causes.
- Collaborative funders who partner with others to reduce redundancy and share knowledge.

Is one approach better than another? We think not. Each can be “strategic” depending on your aims. The essence of strategy lies in understanding your unique advantages as a funder prior to taking action—your resources, interests, networks, expertise and skills.

This booklet shares some of the approaches our clients have taken, in order to help other philanthropists choose an approach that best accomplishes their goals. We hope you’ll share with us your own experiences to continually broaden the conversation about what it means to be a strategic philanthropist.

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# Checkbook Philanthropy

## *Providing Immediate and Crucial Support to the Nonprofit Sector*

Checkbook philanthropy takes its name from those spontaneous contributions we make in response to an appeal for funding...pulling out the checkbook at a fund-raising dinner or in response to a direct mail solicitation. In philanthropy circles, the term checkbook philanthropy often carries negative connotations, implying lack of forethought or strategic charitable mission. However, most every private foundation practices checkbook philanthropy to one extent or another...and it is a valuable and critically needed form of philanthropy.

In this mode of giving, donors choose organizations to fund based on historical relationships or a personal affinity to the organization's mission. Others choose organizations based on personal requests from friends, relatives and colleagues, or through direct solicitations by the nonprofits or their fundraisers.

Checkbook philanthropists generally place few or no restrictions on how their gifts may be used. They also expect little in return beyond the satisfaction of helping a worthy cause and the occasional communication from the organization, such as a "thank you" note or a copy of the organization's newsletter. Checkbook philanthropists give money then leave the organization to do its work until it is time to give again.

Checkbook philanthropy appeals to donors who:

- want to give back to the organizations or causes that have been important in their lives;
- fund causes and participate in events as part of a social network of contributors;
- seek to spread their money around to many organizations;
- want to provide general support to organizations rather than targeting their dollars to specific programs.

## Advantages

Checkbook philanthropy is a valuable tool to cultivate new donors and draw them in to the world of charitable giving. Many family foundations provide family members with so-called “discretionary giving” as a way to build their interest in the work of the foundation and give them experience as a grantmaker. It allows donors to have great flexibility in responding to needs as soon as they are identified, without having to navigate an approval process or contend with internal politics. Donors can be exposed to many grant recipients and over time gravitate to those organizations, projects or causes that really motivate and inspire them personally.

Although characterized by many as “not strategic,” checkbook philanthropy has distinct advantages for nonprofits. These unrestricted donations are the lifeblood of nonprofits, representing a precious, much-needed pool of revenue for paying the electric bill and keeping the phones on. If every dollar in the door came with restrictions, requirements and goals attached, charities would never survive. And because checkbook philanthropists operate largely outside of “organized philanthropy,” they are more likely to fund issues that may be out of fashion in philanthropic circles, as well as provide important support to small and start-up organizations that would not have the time, money or expertise to seek out and send applications to larger foundations.

By not following any formal guidelines or structured processes, checkbook philanthropists have the flexibility to respond immediately, acting as a “community chest” for organizations that need funds right now, not in six or nine months, when their grant requests are finally approved at the foundation’s annual meeting.

Finally, checkbook philanthropy provides needed resources to problems that are so complex, intractable or poorly understood that a purely charitable approach is the most logical course of action.

## Disadvantages

On-the-spot responses can become knee-jerk reactions when donations are based on personal whims or social pressure rather than a real understanding of where needs are greatest and resources scarce.

Checkbook philanthropists do not typically engage in extensive due diligence, so the most effective nonprofits can be overlooked easily because of their lack of sophistication around marketing and solicitation. Also, without formal guidelines outlining their preferred areas, many donors often find it hard to say “no” when they would rather not fund a particular nonprofit. As a result, they may feel pressured to engage in “pay-back giving” to causes that may not be the highest priority for them or the community.

Spreading funds around to a large number of organizations and causes makes it unlikely that the donor will have a large or lasting impact on any one; it also provides little opportunity to develop a deep knowledge base about particular issues and concerns. Finally, the lack of ongoing communication or accountability from the nonprofit organization makes it hard to ascertain the true impact of the donation.

## How To Do It Better

If you are a checkbook philanthropist, recognize the importance of this form of giving and keep it up! If you are planning to donate to an organization, give on the first mailing to save it the costs of mailing a reminder. If you do not ever plan to give, ask to be taken off the mailing list. Clarity of intentions is much appreciated. Also, try to look past marketing pizzazz, and instead evaluate how effective the organization is in addressing the purpose spelled out in its mission.



# Responsive Philanthropy

## *Supporting Needs and Priorities*

Responsive philanthropists actively solicit proposals in their area of interest. As donors gain experience or devote more time to their philanthropy, they quickly find that there are far more organizations, with far greater needs, than their dollars can possibly fulfill, even if they have significant sums to give away. As a result, many foundations focus their giving on specific areas of interest, e.g., “Arts Education,” “Enhancing the Lives of Children” or “Environmental Sustainability.” To help clarify the foundation’s mission, and to narrow down the universe of potential grant seekers, they develop and publicize guidelines that become the basis by which they accept and review grant proposals.

Responsive philanthropists, naturally, respond to requests initiated by nonprofits rather than seek out organizations themselves. It is also within this approach that donors begin to earmark funds for specific programs of the recipient organization, rather than provide general funds for the organization to use as they wish.

This responsive method of grantmaking appeals to donors who want to:

- develop deep philanthropic expertise in a few focused areas;
- fund specific programs, as opposed to supporting organizational overhead;
- place some conditions on the acceptance of grants, such as requirements for matching funds or reporting back results;
- maintain an arms-length relationship with grantees rather than engage in active management or hands-on assistance.

## Advantages

If carefully constructed and well-publicized, the process of requesting and receiving proposals can effectively function as a “needs assessment” of the community. It provides funders with a good idea of the number and types of projects in need of funding. In this sense, responsive grantmaking allows funders to support key issues of concern in the community. From a donor’s perspective, proposal-based grantmaking also moves from general operating support for nonprofits to funding specific ideas the donor is interested in implementing.

For nonprofits, a foundation’s “request for proposals” (RFP) pinpoints those donors who might be interested in funding their operations, allowing them to save time and money by focusing their efforts where there is the greatest chance of funding. The exchange of views and priorities through a formal RFP enables grantees to have a conversation with the donor and make a case as to why their programs are important and effective. Explicit, published selection criteria help the foundation to be consistent and fair in choosing potential grantees, moving away from a system where the best “in” may be knowing the donor or board members personally. In return, the donor receives a greater number of ideas from a wider range of organizations without having to do extensive research or networking. And finally, the increased focus on limited giving areas increases the opportunity for the donor to have impact in a single area.

## Disadvantages

There are, of course, pitfalls to a responsive funding approach. Since the existence of nonprofit organizations is often imperfectly related to social need, outside requests may better reflect the applicants’ self-interests rather than real priorities in the community. The range of concerns the funder can support is also limited to areas where there is a pre-existing nonprofit infrastructure.



There is also a great temptation for responsive philanthropists to favor those proposals that are smartly packaged, well-written and use the most enticing jargon to describe their work. It can be difficult to look beyond the spin and polish of these proposals to assess which organizations are doing good, important work. As such, the RFP process may end up disproportionately favoring those nonprofits with professional grantwriters rather than the best or most worthy organizations.

From the nonprofit's perspective, it seems that too many responsive grantmakers issue RFPs that call for "special projects" and "new and improved" programs that follow the latest trends, but decline to pay for basic operations and programs. As one nonprofit board member said, "We can get all the money we want for computers, but no one wants to pay for the electricity to run them." In their constant efforts to win much-needed money from different donors—each one interested in new and innovative projects—nonprofits can be pulled in too many directions and away from their core mission.

Responsive grantmakers can become burned out by what Dennis Prager in his monograph, "Raising the Value of Philanthropy," refers to as the "tyranny of the grant cycle." Prager points out that in this type of grantmaking, the predominant force driving the work of the board is processing proposals and conducting due diligence on applicants, a mechanized process divorced from solving real problems for real people. Having written guidelines and a formalized grantmaking process limits a donor's ability to be opportunistic. Consequently, it can be far more difficult to provide prompt support to immediate concerns, and the personal rewards of philanthropy can become lost in the formality of the submission and approval process.

## How To Do It Better

If you are drawn to responsive philanthropy, making site visits can help you understand and connect with the work of grantees and potential grantees. Also, consider earmarking part of your grantmaking budget for ad hoc opportunities or critical needs that emerge during the year. Finally, be careful not to promote “mission drift” by supporting charities that bend their programs to suit your interests.



## Venture Philanthropy

### *Building Capacity for Growth and Sustainability*

Venture philanthropists apply venture capital strategies to their grantmaking with the aim of replicating worthy programs and/or bringing them to scale. Generally, venture philanthropists provide long-term operating capital for basic infrastructure, plus hands-on mentoring to stimulate their chosen nonprofit “investees” into financial shape. Their goal is to help carefully selected nonprofits improve operational performance so as eventually to scale up their programs or become self-sustainable. In addition to financial support, venture philanthropists contribute their own time and talents, and connect their nonprofits to consulting and technical advice in areas such as strategy, management, accounting and data collection. Venture philanthropists undertake extensive due diligence of an organization’s potential for excellence prior to committing any funds. Grantees are often held accountable for achieving specific results in given time frames before additional funding is released.

Venture philanthropy appeals to donors who:

- prefer long-term partnerships with a handful of organizations doing good work;
- desire heavy involvement in the day-to-day affairs of the organizations they fund;

- want to apply their business/management practices to their philanthropy;
- want to fund small scale projects that can grow into larger initiatives.

### **Advantages**

There are distinct advantages in a venture approach to philanthropy. Successful executives and entrepreneurs can leverage their business acumen and networks to help causes they care about. And since one of the major objectives is to demonstrate results from their investments, venture philanthropy has done much to address the historical lack of standards and benchmarks for nonprofit performance.

Improved operational efficiency can be an important factor in the long-term survival of a nonprofit in an increasingly competitive funding environment. A venture philanthropist's operating dollars and focus on core functions provide a welcome shift from program-based grants. The comparatively lengthy time horizon of venture philanthropy investments is also a boon for the nonprofit. While many other types of funders like to keep grants small or short-term to keep grantees from becoming dependent on their dollars, venture philanthropists recognize the frustration and distraction of the constant money chase, and make a long-term commitment to nonprofits they support.

### **Disadvantages**

There are a number of assumptions underlying the venture philanthropy approach that are as yet unproven. Many venture philanthropists believe that nonprofits not only want help in strategizing and carrying out their work, but that they or their contacts possess the key skills that the nonprofits are missing. Despite best intentions, the donor's deep involvement can squash the vision of the nonprofit's founder who started the organization, or breed resentment among its staff. Moreover, practices and approaches from the for-profit sector may not translate directly to the nonprofit realm.

Although venture philanthropists intend to make their investees “self sustaining” and then move on, real-world exit strategies are not as clear as in the for-profit venture capital arena. In practice, it is often difficult to find donors interested in picking up another funder’s project.

Venture philanthropists tend to develop grant portfolios that not only are diversified, but diffused (e.g., youth development, homelessness). Venture philanthropists may fund a handful of organizations working on a different aspect of an issue with no “master plan” of how the issue or problem could be solved. The idea is to invest in a number of unproven organizational strategies in the hopes that a few will show results. Thus, venture philanthropy may enhance and improve individual organizations, but do little to solve broader social problems.

### **How To Do It Better**

To start, cultivate a climate of candor in which investees can be frank about how much they desire your participation or benefit from it. Understand “what works” in your field of interest before choosing individual organizations to fund. Work out a realistic exit strategy that leaves an organization stronger than when you started. Let each organization know how long you are willing to fund it and the conditions under which your support could be suspended.

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## **Results-Based Philanthropy**

### *Solving Social Problems by Addressing the Root Causes*

A crucial element that defines results-based philanthropy is the “big picture” approach: these donors are trying to get at root causes to fundamentally solve problems rather than addressing their symptoms. The concept of leverage is key to these philanthropists: they want to impact the most people for the fewest dollars.

Results-oriented grantmakers start with extensive research to understand the problem, its underlying causes, and possible leverage points that address the issue at hand. Based on this research, they narrowly define the problem and choose a specific, achievable goal. Then, they conceptualize a portfolio of grants for addressing the problem: each grant is part of a cluster which operates in concert with others against an explicit objective. Together, these clusters of grants approach the problem on multiple fronts, reinforcing one another to accomplish the stated aims.

In results-based philanthropy, the focus is on solving the problem, and the nonprofits are a means to this end. These donors choose nonprofits as grantees because they can execute a given part of the strategy, based on their leadership, experience and reputation. They keep an eye on a few measures that reflect progress on the problem they are trying to address. This is much like campaign advisers who keep an eye on the poll numbers throughout a political race, rather than waiting until Election Day to see how they did.

Results-based philanthropy appeals to donors who:

- have a particular social problem in mind that they want to address/solve;
- want to have a significant role in “setting the agenda” for change;
- are willing and able to devote significant resources to their philanthropy;
- are not afraid of controversy.

### **Advantages**

Although an effective model for many types of social issues, results-based philanthropy suits donors who want to fund unpopular, orphaned or newly emerging issues where the nonprofit infrastructure is not well-developed. Some issues benefit tremendously from having someone focused on the big picture of the desired social change. And finally,

because results-oriented donors focus their efforts where they believe they have the best chance for success, they often have big wins when things work as planned. Though more expensive up front, if successful, this “leveraged” approach is much more cost effective than one-by-one direct service.

### **Disadvantages**

There are a number of downsides that prevent many serious donors from taking a results-based approach to their philanthropy. For one, it takes considerable time, money and specialized expertise. On the front end, strategy development can entail many months of research and consultation with experts, nonprofits and other funders, and it does not come cheaply. Throughout the life of a strategy, donors must be willing to invest the time, money and energy to stay up to date, collect information on the success of their strategy, and make difficult decisions. And for all the investment, taking a strategic approach to solving social problems does not guarantee success. If the donor selects the wrong leverage point for change or unexpected events throw the strategy entirely off course, the entire investment could be wasted.

From the perspective of the nonprofit community and society at large, results-based philanthropy can be viewed as over-controlling and donor-centric. When private individuals establish the agenda of what merits society’s attention, it can breed resentment. Even grantees may feel “strong-armed” to fulfill the donor’s agenda rather than their own. If the issue is controversial, this more proactive approach to philanthropy is likely to generate strong opposition from vocal critics, often aimed at the program and sometimes the donors themselves.

## How To Do It Better

Do not reinvent the wheel. Talk with your peers about how they develop effective grantmaking strategies and how they overcome obstacles. Make sure you keep an eye on the end goal and be prepared to change course if you are not making progress.

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## Collaborative Philanthropy

### *Sharing Solutions and Building Knowledge*

Collaborative giving recognizes the limitations of any funder acting alone by bringing together a community of givers interested in the same issue or geography. These donors understand that the resources of any one funder are but a tiny fraction of the overall system.

Collaborative philanthropists band together to understand the overall issue or problem, then “divide the pie,” parsing out responsibility for different aspects of the solution, depending on each funder’s abilities, knowledge and interests. Each reinforces and complements one another’s efforts. One may focus on building the capacity of nonprofits working on an issue. Another on developing the research base to support a call for action. Another may have the reputation and name recognition to bring visibility to the issue and can focus his/her efforts on public awareness.

Collaborative philanthropy is an excellent model for donors who:

- want to assume a “big picture” approach in solving community needs;
- are willing to give up some control over specifics in exchange for greater influence for the group as a whole;
- want to be part of a network of like-minded, hands-on givers who feel similarly committed and are passionate about the same issues.

## Advantages

On a personal level, donors working collaboratively can learn and work with like-minded people, and the “returns” on this investment go well beyond the financial exchange. Working as part of a group is a faster route to becoming a sophisticated donor. More broadly, a funder’s ability to affect social change grows along with the increase in dollars and expanded network of multiple funders. This approach also reduces redundancy and increases the chances of success as multiple funders with the same agenda pursue the same strategy for achieving it, acting in concert rather than unintentionally undermining each others’ efforts by speaking in a discordant voice.

## Disadvantages

It is natural to imagine that building consensus would be easier among “kindred souls” than among other groups. But these organizations—philanthropies and nonprofits alike—all have unique visions, strong personalities and, occasionally, competing ideas about change. Achieving consensus can be difficult or even impossible.

By its nature, collaborative philanthropy requires that individual donors give up a certain degree of control over how their money is used. That is, it does not work for donors simply to inform others of what they are doing with their philanthropy. A collaborative group must achieve some degree of consensus about their objectives and how to accomplish them. This can be hard for those who are used to running the show and spending their time and money as they like.

## How To Do It Better

Be willing to abandon “turf” issues in the interest of the greater good. Even if you have exceptional “influencing” skills, do not use them simply to sway the group to your ideas. Know yourself well enough to understand what you are not good at, and leave that part to others.



## Conclusion

All philanthropists can be strategic when they approach their giving with insight and purpose. Our objective here is not to recommend one approach over another, but rather to help you assess which approach best accomplishes your aims:

- Are you drawn to solving problems, or is your primary motive to support worthy organizations?
- Do you want to be guided by requests from nonprofits, or set the agenda yourself?
- Are you looking for hands-on involvement, or do you prefer to let grantees run things as they see best?
- Do you want to partner with other funders, or forge your own path?

By taking an honest assessment of your unique advantages as a funder—your interests, resources, networks, knowledge, experience and skills—you will discover which approach is best for you. It is this process of undertaking a candid self-assessment, and not following the latest trends, that shapes the strategic philanthropist.

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## Foundation Source Philanthropic Advisory Services

Foundation Source can help you learn more about these models of strategic philanthropy and which might be most appropriate for your philanthropic goals. We work with hundreds of foundations on a daily basis, giving us unmatched depth of experience to advise you on best practices.

Our in-house philanthropic experts can help identify the approach best suited to your aims, then educate you about how the most experienced and successful foundations are executing your preferred approach. We will help you create a plan for what your foundation can accomplish, then help you execute that plan.

## About Foundation Source

Foundation Source is America's leading provider of outsourced services for private foundations. The company's back-office systems, online services and experts on-call provide clients with Professionally Administered Foundations that solve the traditional problems of complexity, compliance, community and cost. Foundation Source foundations are stronger and deliver greater social impact, allowing families to focus on their philanthropy rather than back-office administration and compliance tasks.

Foundation Source offers a full range of services to keep private foundations of all sizes operating smoothly and in accord with IRS regulations and federal law. Today, Foundation Source serves more than 550 private foundations nationwide, representing over \$2.1 billion in assets under administration.

- **Foundation Source Back-Office®** – Includes administration, compliance monitoring, transaction processing, tax preparation and filing, and financial and regulatory reporting.
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