

Changing the world

Philanthropy is changing, and for the better. With billionaires setting a new standard in how their wealth can positively impact other, the world is set to become a better place. Sam Davis III and Dennis Jaffe discuss the thinking behind strategic philanthropy

Over the past ten years, Bill and Melinda Gates have begun to make a profound difference in the practice of philanthropy through their family foundation. By focusing their charitable giving on the eradication of intractable diseases in the developing world, the Gates' have demonstrated the effectiveness of a strategic approach to philanthropy. Warren Buffet, another of the ten most affluent people in the free world, was so impressed with the work of the Bill and Melinda Gates Foundation that he elected to merge his family foundation with theirs by contributing \$31 billion to their foundation. These events have prompted earnest discussions among other families and have had a remarkable effect on philanthropy, especially in fighting global poverty.

These philanthropists have focused on two areas of equal importance. First is consideration of the legacy of family wealth, or the balance between giving back to the world community and leaving heirs a substantial inheritance. In the Gates case, Bill and Melinda have funded the largest foundation in the world, but they retain half of their original wealth. Many families who have created large enterprises need to consider how much to give back to their communities and how much wealth to leave for their heirs. In Europe, the Middle East and South America, the practice has been to leave to heirs almost all that the government has not taken through taxation. In the US, the issue of estate taxes is a burning political issue. By emphasizing global philanthropy, the Gates and Buffet families have signaled a shift in the family wealth legacy balance.

The second issue may signal an equally revolutionary change in direction. It is about how much control donor families have over the expected outcomes from their philanthropy. Like those who created fabulous wealth by founding great corporations in earlier centuries, the Gates' have approached their charitable giving with the same focus that they gave their business enterprises. Similarly, the financier George Soros has focused his philanthropy on the creation of open societies and has created his own nonprofit organizations when he did not find existing capacity to carry out his objectives.

MAXIMUM IMPACT

These new philanthropists want to define and control philanthropic projects to make sure that their funding has the impact they envision. This is a much more active focus than traditional American philanthropy in which donations are made to established nonprofit organizations that are trusted to spend it well. Thus, the donor is essentially passive, offering financial support only, without any involvement in the process of creating change. In contrast, these new strategic philanthropists want to focus their efforts, define a strategy, research issues, establish powerful partnerships and fund specific projects with measurable outcomes.

Of course, the Gates Foundation did not become such an extraordinary philanthropic force overnight. For quite a while, the Gates' practiced philanthropy the way most wealthy families do: setting up a tax-advised charitable structure, hiring staff and responding to the myriad requests for donations to worthy causes. With its extraordinary resources, they had a positive impact on numerous organizations.

However, Bill Gates was profoundly moved by an article citing the heartbreaking statistic that half a million children each year die from a disease called rotavirus. While little known in the developed world, rotavirus is the most common causes of severe diarrhea in children in developing countries. This information stimulated Bill and Melinda Gates to go to the World Health Organization, where they learned more about the effects of similar diseases and the vaccines and simple treatments that could save lives.

Their travels led them to define a clear focus for their work. It started with a values statement: "All lives – no matter where they are being led – have equal value." Their philanthropic vision is the outcome of that values statement, a way to leverage their vast, but also limited, resources to have the maximum impact on the lives of people around the world who suffer from completely preventable illnesses.

Their Foundation envisions a world in which premature death is eradicated, disease managed and poverty greatly reduced in the developing world. Their philanthropic vision includes partnerships with governmental and non-govern-

mental organisations serving the developing world. Perhaps the most profound element in their philanthropic vision is its intent to expend all charitable funds and terminate the Foundation within 50 years of the deaths of Bill and Melinda. Rather than stretch their donations to eternity, they want to have a powerful impact this generation.

This example has not been lost on other large US foundations, who in their times were the result of bequests from other visionary families of wealth. The Rockefeller Foundation was once one of the biggest, and its history includes major programmes and impact throughout the world. However, The Rockefeller Foundation became prisoner of its traditions and developed a structure and operating methods based more on tradition than strategic impact. Enter a new leader, Judith Rodin, who understood strategic philanthropy and began with an assessment of the Foundation's giving patterns. Following the development of a strategic philanthropy plan, Dr Rodin integrated the Rockefeller Foundation operations to move into new programme areas with global impact and to focus on clear, measurable outcomes.

The strategic approach does not belong only to large US family foundations. Although philanthropic traditions in the EU and other parts of the world are very different from the US, this strategic philanthropy model is spreading to other countries. Traditional government-funded social safety nets are becoming frayed, and governments are beginning to offer tax advantages to foundations in some countries. And following the examples of the Gates, Buffet and Soros families, many families in Europe, the Middle East and South America are looking strategically at their philanthropic choices and more are demanding accountability from those to whom they provide financial support.

BOUNTIFUL BENEFITS

The benefits families find in strategic philanthropy are both social and personal. As families see the limits of governments' power to foster social innovation and respond to emerging challenges, they pursue more creative and accountable paths for addressing global needs. Families examine opportunities for using their own financial resources to address challenges and meet needs that their government cannot or will not. In addition, families look ahead to the next generation and understand the benefits of a legacy of giving back to their communities. Like the Gates, Buffett and Soros families, others who have accumulated wealth discover, through strategic philanthropy, the joys of balancing contributions to meet global needs with contributions to heirs in future generations.

Families of wealth may consider another, less obvious benefit of strategic philanthropy. Most family enterprises provide management successors from within the family ranks for two to three generations. After that, growth in size and complexity of the family business and diverging interests of family members result in fewer opportunities for family members to play leadership roles in the business. Instead, heirs of family wealth in later generations may experience more opportunity and meaning by participating in family phi-



Contributing to a cause: Bill Gates gives a polio vaccine in India

lanthropy than managing the family enterprise. A family can revitalize itself and stay connected when it adopts a meaningful philanthropic vision and implements it strategically.

Strategic philanthropy is not the domain solely of families with huge business enterprises. Indeed, families whose wealth is tied to smaller businesses are benefiting from the process of strategic philanthropy. Families whose values lead them to give back to their local communities find benefit in an inter-generational process for developing their philanthropic vision and strategic plan that focuses their charitable giving. Almost every community is comprised of business-owning families whose leadership and charitable gifts spur the creation of new programmes and projects that serve those most in need. A strategic approach to philanthropy provides these families with the means to engage family members in a meaningful family endeavour while ensuring that their gifts are used to good effect.

Worldwide philanthropy is undergoing exciting changes, and these are being led by philanthropic families. Whether it is the extraordinary programmes of those like the Bill and Melinda Gates Foundation or local initiatives led by family business owners, philanthropy is becoming more strategic and more accountable to donors. The process of strategic philanthropy allows families to be more focused and effective in giving back while preparing future generations for carrying forward the family's philanthropic legacy. ●

Sam Davis III is a Principal in Relative Solutions and a Fellow in the Family Firm Institute.

Dennis Jaffe is a founding partner of Relative Solutions.