



RE-CONSTRUCTING PHILANTHROPY FROM THE OUTSIDE-IN

A Funder-to-Funder Point of View

Paul Shoemaker, Executive Connector

Social Venture Partners

“Paul makes a powerful case for funders, regardless of their giving vehicle, to turn things outside-in and approach their philanthropy in ways that truly have more impact for recipients”

- *Henry Berman, CEO, Exponent Philanthropy*

“Funders are wise to take notice of this compelling case for change made by a highly-credible advocate. Paul Shoemaker is a boundary-spanner who can’t abide a business-as-usual approach to work as important as philanthropy. For years he has joined the chorus of voices calling for more unrestricted and long term support. With this new paper he moves us one step closer to flipping some default settings in philanthropy to more productive practices.”

- *Kathleen Enright, Founding President and CEO, Grantmakers for Effective Organizations*

“Paul’s essay is a powerful call to funders to step up their game and support organizations in the ways needed to achieve their shared goals. Sure to prompt much debate and discussion, it’s a must read for foundation leaders.”

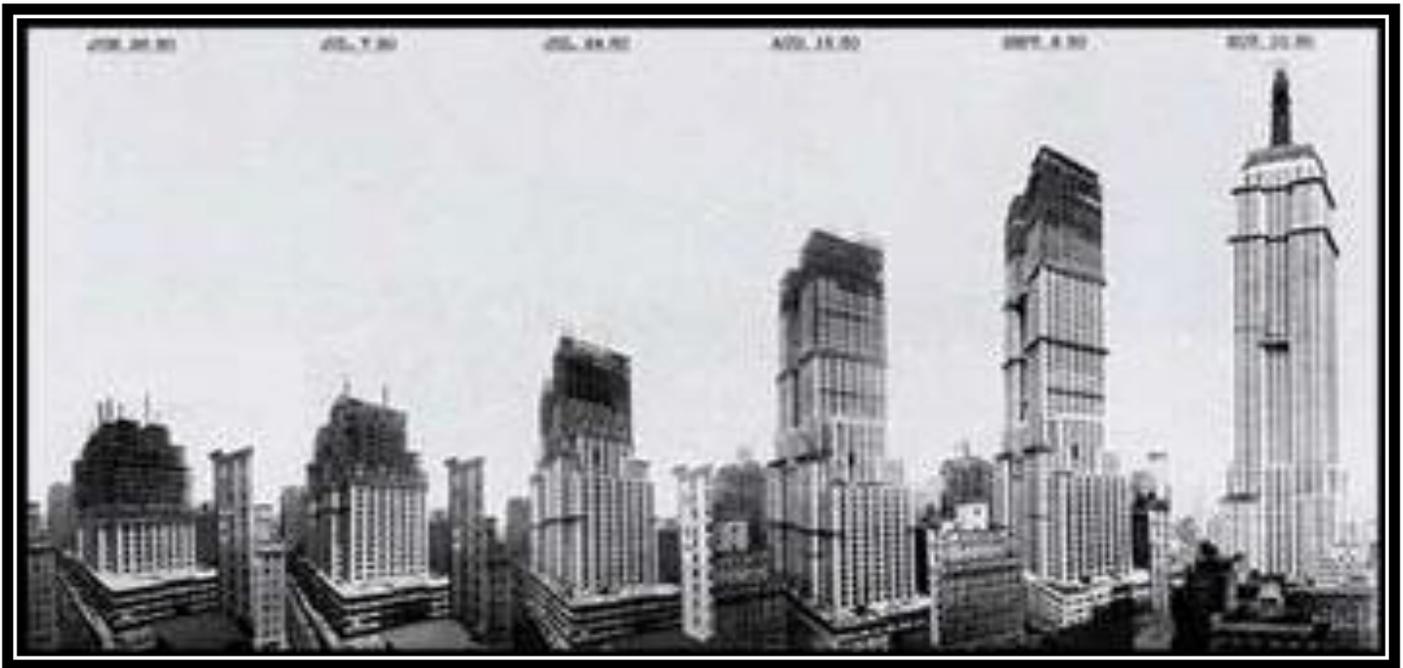
– *Phil Buchanan, CEO, Center for Effective Philanthropy*

Paul is asking the critical questions of funders which must be addressed if we are going to advance evidence based interventions at scale. He is appropriately challenging us all to think more boldly.”

– *Neil Nicoll, CEO (outgoing), YMCA USA*

INTRODUCTION

The Empire State Building is a marvel, one of the seven modern wonders of the world. Yet when it was built, the most revolutionary change wasn't the architecture or the height, there were two other buildings built nearby, almost as high. The less acclaimed, quantum leap was in the construction **practices** by which the building was framed.¹ Never before had a building been constructed the way they did it, as fast as they did it.



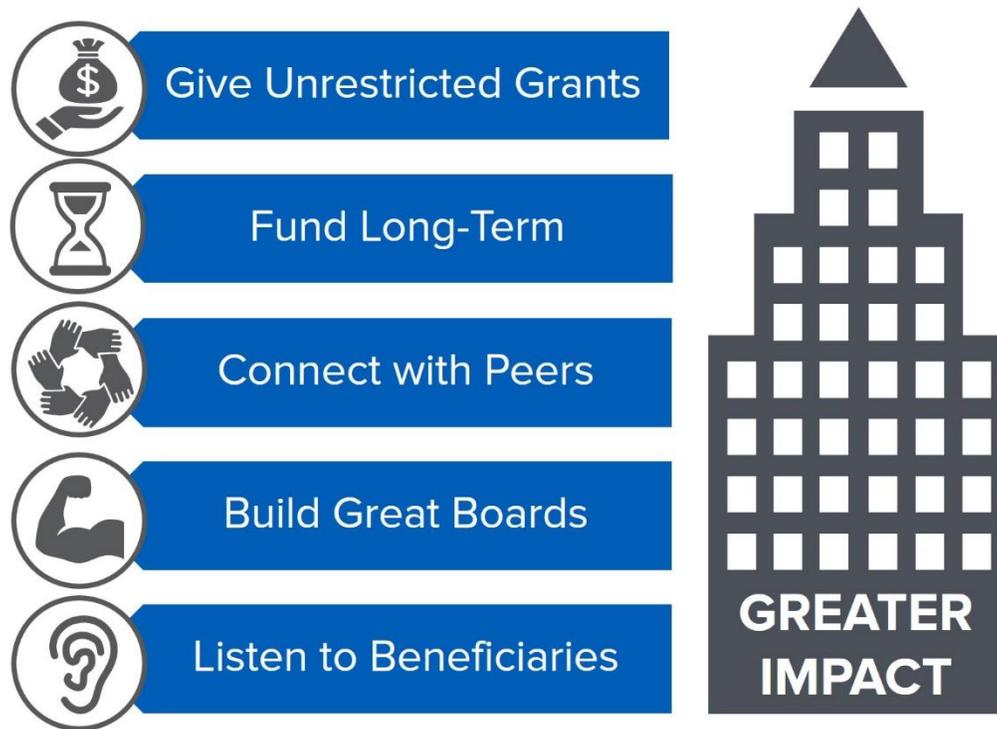
The art deco style was already in vogue, they didn't need new materials. But the contractor, Starrett Brother & Eken, started construction before designs were fully completed, depended on much tighter relationships with suppliers, built sections offsite to assemble rapidly on-site, labeled bricks with the precise place they would be cemented, and many other radically new practices. They called it "fast track," a familiar term and practice today.

In philanthropy today, there is a lot of good "architectural" work being done in strategic, emergent philanthropy; networks; and collective impact, to name a few. But to achieve a breakthrough like the Empire State Building, we need to fundamentally change the underlying **practices** we use to construct our philanthropy, just as radically as Starrett did.

We have good materials to build with (committed people, financial capital, promising solutions), but we are using outdated, and sometimes damaging, practices that are often more grounded in an internally-driven, funder-centric point of view than by the external realities of the grantees, programs and systems we seek to change.

The five philanthropic practices I'm advocating for are each incrementally helpful; putting them all together could create significantly greater impact. They will require funders to work with an orientation from the **outside-in**, grounded in how social change truly happens, instead of what can oftentimes be a funder's inside-out approach of assuming *their* grants, used in the way *they* desire, in the timeframe *they* feel appropriate, will bring about change. Becoming far more **outside-in** would mean: ⁱⁱ

- Providing un-restricted (not un-accountable) funding.
- Providing funding for the long-term – much, much longer-term than is currently practiced.
- Connecting to our peers in sustained, systemic ways, and doing this as the rule, not the exception.
- Helping to build many more great, strong boards.
- Listening to our beneficiaries much more closely.



If some of these practices strike you as boring or familiar, they should. They've been talked about for years, but are still not practiced nearly enough. Some funders are doing better on a few of these, but the absence of many of these practices applies to most all funders. Just as the Empire State Building contractors could not have achieved their goal without a fundamental change in their construction practices, funders will continue to fall short of our goals if we don't change *our* underlying philanthropic practices. *If instead, we integrate these five practices into our work, we can make quantum leaps in achieving greater impact for our communities and our world.* The stakes are no less than that.

WHERE I'M COMING FROM, SVP AS CONTRACTOR

Social Venture Partners' philanthropic "architecture"ⁱⁱⁱ is engaged philanthropy. SVP's day-to-day work is more like a general contractor than an architect.^{iv} We use human and social, as well as financial, capital to help nonprofits build their organizational capacity and in turn, grow the philanthropic and civic leadership capacity of our donor members.¹

The viewpoints in this paper are my personal beliefs from 17 years working as a funder and as an engaged partner with non-profits. I'm not positing a new theory, but rather a street-level view of what I believe works and doesn't in philanthropic practice today. The intended audience is fellow funders, both institutions and individuals. I own my views fully and welcome criticisms and disagreements openly (my email is shoe@svpseattle.org and phone is 206-451-8123).

Though SVP's lens is through individual philanthropy, we work with institutional funders (private, corporate and public) and I believe the ideas here are applicable to all philanthropy, regardless of form; while acknowledging the dynamics and scale of public funding, in particular, are different.

There are many other practices, such as using data and incorporating advocacy, which are also very important to effective philanthropy. However, the five practices I highlight are the foundational practices I believe are necessary for all funders to adopt if they want to effect greater significant and sustained change. And the practice that today, owing to their absence, fundamentally weaken our whole underlying philanthropic structure.

Last but not least, this isn't an anthem to how SVP Seattle has it all right, we funders are all in this together. SVP has a LOT of work to do ourselves. To be explicit – I am proudest of our unrestricted funding practices; we fund multi-year but not long enough; we are, inherently, highly connected across individual peers, but not well enough to institutional ones yet; while we have a solid view on what good looks like, we've struggled with the boards we invest in and participate on; and we have taken purposeful steps, but have much further to go to get closer to our customer. What follows is a more in-depth look at the five game-changing ways in which I believe philanthropy needs to re-construct its core practices.

I sincerely hope you will make notes in the margins and at the end of sections, think about your philanthropic practice today, and use this as a discussion or reflection piece.

¹ I'll be publishing a book in Sept, 2015, with Wiley Co., that digs deeper into philanthropic and civic leadership.

#1 - PROVIDE 100% UNRESTRICTED FUNDING IN PLACE OF “QUITE DAMAGING DOLLARS” (QDD’S)

The *most destructive practice in our philanthropic system* is restricted funding, i.e. the myriad of ways funders and donors constrict their funding. This includes the lack of general operating support and limits on administration and “overhead,” etc. Let’s call restricted dollars - funds that are subject to limits based on purpose, time or specified means for achieving an end - what they really are, ***Quite Damaging Dollars (QDD’s)***. To better illustrate what I mean, let me share six anecdotes, from just the last six months.

I had a groundhog experience three times in three days, this spring, at the Skoll World Forum. Three NGO’s^v – two US-based, one international (none a Skoll grantee) each told me, independently, that they wished they were half as big, in revenues, because they’d be twice as *effective*. That’s illogical, what happened?

The same thing that’s happened thousands of times before: They each received large, restricted grants to scale one part of the organization, with a certain percent “overhead” limit and, over the subsequent few years, conditions changed. To be most effective, they needed to pivot, but were hemmed in by their restricted funding and lost their flexibility to focus on what was now the greatest point of social impact. Over time the effects of this funding was structurally damaging to the health of their organization as there became two parts to the organization - the “growth part” and then everything else or the “lesser parts.”

All of this was set in motion by a grant(s) with good intent, but *quite damaging* in its restrictive requirements, and flawed in its implicit assumption that the funder knew best how to solve a community problem. How could a funder, by definition, know more than a community-based NGO about a community problem? And if it does, something is wrong in the first place.

Later that spring, a fund development director from a major institution in Seattle told me that over the last ten years their proportion of unrestricted funding had declined from 46% to 23% and that this had “negatively affected their bond rating” and increased their debt costs and directly affected their loan worthiness.

Next, I had lunch with a colleague from an east coast foundation. We exchanged family stories and then, for the next 90 minutes, she shared her constant frustration with restricted grants – how debilitating QDD’s were to the working relationship with NGO’s, how they fractured trust, and how much paperwork resulted, all with no or negative effect on the ultimate outcome.

Finally, on a local list serve, I saw a posting from a funder asking for input on “developing an application form for a Core Support Grant program,” I suggested they just give all grantees 100% core support. She responded that, “without working capital an organization is doomed for failure, but our board still has reservations.” I then asked another colleague about this funder and he told me “a couple of their board members are also board members of our grantee, XYZ Org, and on the flip side they have been very appreciative of our unrestricted funding.” Read that as many times as you’d like.

Six stories in six months heard by one person.^{vi} Extrapolate the math and you can see that this is a chronic practice. We, as funders, are using a practice that is weakening the entire structure of grantees we hope to build. If this were the Empire State Building, we'd have to start tearing down parts of the frame because it would now be clear that our construction practices were inherently flawed, creating a weak structure that might crumble.

There isn't a single good reason for restricted funds. You want to be sure the funds go towards an intended social outcome? Then make an agreement on the mutual outcome and let the nonprofit decide how to best spend the funds (means) to achieve that goal (end). *Unrestricted absolutely does not imply unaccountable.* Maybe you're worried that they might mis-spend funds? Don't make the grant in the first place, if you can't trust them. Or you might not like the way a grant you made ultimately worked out? Don't fund them again the next time.

And the big one – do you need to justify to your Board where and how the funds are being spent? This is often the choke point. We have to get straight with our philanthropic board members and let them know that QDD's are having a debilitating effect on the mission they are charged with being stewards of.

A private sector CEO (who will often, someday, be a donor that practices restricted funding) would find it ludicrous to build a company when her multiple revenue sources were constrained in so many, unique unconnected ways to specific, isolated spending purposes. Revenues from Product A can only be used for R&D, Product B only for new buildings, etc.

Truth be told, restricted funding is practiced as well by NGO's, who are sometimes intermediaries and re-grantors; funders have taught them the practice. You've all seen the appeal – "Give to us and 100% will go to the programs, none of it will go to overhead... Our Board of Directors and sponsors pays for all administrative costs so 100% of your donation goes directly to X program."

They do it for a reason, it works!! But at the end of the day, all of those funds – the 100% donations, the sponsors, the Board – go into one organizational revenue pot. Contributions ultimately help pay for all the parts of the organization, whether or not they offer one or multiple (often restricted) slots for us to insert our charitable funds into. This approach continues to "ghetto-ize" staff salaries, office systems, rent, administration, which are very real costs of running a holistic, sustainable organization.^{vii}

DATA

There is a "new deal" we need to strike – the flexibility of unrestricted funds in exchange for greater accountability, in the form of real data used to drive decisions by NGO's. Funders need to trade overhead percents and outdated measures for better ways to assess the effectiveness of their grants.

And funders must enable them to build their capacity to do so, via unrestricted funds. As Jeff Edmondson at Strive told me, "this ain't sexy, but it is the crux of shifting funder culture."

Eradicating QDD's on its own is vital, but absolutely *not* sufficient. This is an important sidebar, but not a practice I called out because it's a whole other topic unto itself and one that *is* rightly getting more and more attention.

One more insidious consequence, from another respected NGO leader and friend, in her words, unedited - “restricted funding actually may produce corrosion of ethics within otherwise honest and transparent orgs. When you need to pivot (which you always do), but you can’t because you have to hold true to the letter of the grant, or when you have to ensure you spend out all the funds because you are at risk of losing subsequent grants (crazy, but true), it can force org’s to cut corners, allow higher costs into line items, which can ultimately amount to cracks in the ethical foundation of an NGO. Amplify this by multiple grants over multiple years and...”

We are asking nonprofits to construct the frame of their “Empire State Building” (which the scale of some social challenges surely feels like), but no one will give them money for bathrooms and only for certain kinds of i-bars. After all, who would want to fund bathrooms? Restricted funding *is* that absurd.

It’s important to note, as Antony Bugg-Levine, CEO of Nonprofit Finance Fund, reminded me, “Nonprofit leaders do also have to develop the knowledge and capabilities to understand their full cost and financial structure, which is a condition to being able to have a different partnership (with a funder).”

The power dynamic in funder-to-grantee relationships, which can be minimized but not avoided, underlies much of why there is little progress on this practice. So often funders have their own restrictions on what *they think* needs to be funded without asking the people in the field what they *actually need*. As one of the strongest nonprofit leaders in this region told me, it often ends up being about the “illusion of control vs. the possibility of impact” and there is almost always an inverse relationship between control and impact.

Eliminating QDD’s would create the opportunity for radically different, trusting relationships, more dollars being more effectively invested in reaction to what is truly needed, and transform how nonprofits think about and work with funders. I would be remiss if I didn’t reference the strong work being done by www.overheadmyth.com, led by Jacob Harold at Guidestar. This is a key step in the right direction.

Communities In Schools (www.communitiesinschools.org) undertook an intentional, at times difficult, process to develop the right kind of relationships with its funders, by being steadfast about the kind of funding they needed (and rejecting funding that didn’t fit *their* needs) and it has made a huge long-term impact on serving more kids more effectively; it can be done. ^{viii}

The answer is simple – end the practice of giving QDD’s. The Heron Foundation has. Edna McConnell Clark, Packard, and Hewlett Foundations have committed sizable funds to grantees’ organizational capacity, a step in the right direction.^{ix} There is no single positive reason for restricted funding and a myriad of negative ones. *Just ... don’t ... do it.*

#2 - FUND FOR THE LONG-TERM, MUCH MUCH LONGER

In most cases where philanthropy has been effectively deployed to truly help change a social outcome, the investment timeframe was *at least* ten years. However, if we look at grants of \$10,000 or more awarded by the top 1,000 largest US foundations, only one-third of grants (by dollars or number) are “continuing,” i.e. part of a multi-year commitment.^x As a colleague told me once, “we want to change life-cycle issues with a grant-cycle mentality.” And I’d be surprised if this problem isn’t more acute when you consider giving from individuals.

Let’s look at a recent example when funding over the long-term, helped bring about significant social change: Massachusetts was the first state to approve marriage equality in 2004. At that time, further progress looked like a mountain beyond Everest, the backlash was extraordinary. In reaction, a group of funders and activists launched a shared game plan, with long-term funding and collaborative messaging. Ten years later in 2015, it seems almost unimaginable that 35+ states have now enacted marriage equality.

For decades, conservative political strategists have mounted an extraordinary effort to reshape public policy. Does anyone doubt its effectiveness? NCRP^{xi} wrote a report that “documents the substantial role that 12 foundations played in developing and sustaining key institutions in the movement,”^{xii} looking back at 30 years of sustained, unrestricted funding.

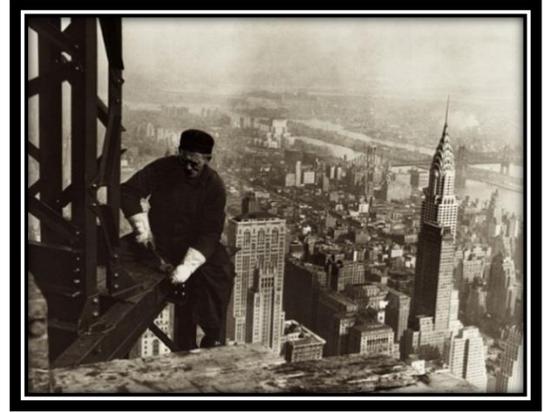
Our natural human instincts for the new thing can run counter to achieving long-term, sustainable social change. As Neil Nicoll, the outgoing CEO of YMCA told me, “The involvement of those who wish to dabble should be avoided at all costs.” One-time and short-term funding is, for the most part, dabbling.

It’s not wrong for an NGO to have to go out and raise funds. Tech entrepreneurs, for example, have to do so, but once a private sector entrepreneur’s business becomes positive cash flow, more capital comes to them. The problem is that most NGO’s are *forever* in fund-raising mode, in part because our funder time horizons are short term and fragmented. The NGO has to move from funder to funder to funder as one after the other “exits”.

If I had a penny for every time I’ve heard an institutional funder or individual philanthropist say we only fund one time or for X years because we don’t want a nonprofit to become “dependent” on us, I’d be rich. It’s inherently contradictory, i.e. if every funder says they don’t want grantees to become too dependent on a funding source(s), then we are collectively making them dependent. Nordstrom’s works very hard to retain their most loyal customers, i.e. funding sources, year after year and are highly admired for that “dependency.”

One international NGO colleague emailed me, “One year cycles, which are 90% of our grants, suck the spirit out of the work. I am in South America this week and every waking moment not in meetings is spent doing review for a \$250,000 grant. This is a funder who believes in us, yet we have to re-apply as if from scratch every year ... then you multiply this out to virtually every other donor and our focus, intensity, and impact dissipates in equal amounts to the focus and intensity we have to put in writing, editing, sending in and then doing it over again and again.” (This is from an experienced, top-notch fund raiser).^{xiii}

It goes without saying, you should not invest for 10+ years if you think the grant has been a bad decision or if the mutually agreed-upon goal has a shorter timeframe. And there might be infrequent, significant strategy shifts necessary for a funder when social or environmental conditions change significantly (just as they do for grantees). Rather, the damage is when we withdraw from good investments.^{xiv} The contractors didn't stop building the underlying frame, or change their construction practices for the Empire State Building halfway up once it started looking great!



The Robin Hood Foundation has funded some organizations for two decades and will continue to if they are demonstrably helping to end poverty in NYC. The Skillman Foundation made a 10-year commitment to Detroit, now joined by many others in the “grand bargain,”^{xv} and the California Endowment did the same for Building Healthy Communities. Rotary Clubs (along with the World Health Organization, the UN, and Gates Foundation, et al) has been funding polio eradication for over 35 years. The “last mile” in disease eradication is complex, but the end game, though very challenging, is within sight.

There is something deeply gratifying, if less interesting in the short-term, that comes from committing to something for the long-term and seeing it make a real dent in the social challenge you are addressing. If we are serious about the *goal* of solving problems and not about the *process* of grant making, then we can re-construct our thinking about how long-term we need to be. Do we want to be “grant makers” or “problem solvers”?

#3 - CONNECT TO OUR PEERS, AS THE RULE NOT THE EXCEPTION

The architecture around Collective Impact / Action is good work. Collective impact is defined as “the commitment of a group of actors from different sectors to a common agenda for solving a specific social problem, using a structured form of collaboration.” FSG has been a thought leader in defining and continuously updating best practices for the field. It is imperative that we all think and act much more collectively. For funders, however, it is not often natural and there are few incentives to do so.

We hear so much chatter about nonprofits needing to work together more, align their outcomes, and that we need fewer nonprofits and more mergers. Why don't we ever hear about a need for funders to merge, by the way?? NGO's can indeed work better together, but they can only go so far.

Whatever currents funders send downstream, the social sector delivery & advocacy providers will ultimately be only as successful as the alignment and shared accountability created upstream amongst the funders. As Ed Skloot, former CEO at Surdna Foundation, recently told me, “the biggest barrier is that philanthropy is *still* a solo, fragmented, ego-driven often rigid, way to help communities.”^{xvi}

I've experienced a small-scale collaborative the last few years at SVP Seattle, called the Statewide Capacity Collaborative. This collaborative is made up of nine funders, large and small, across Washington State. Talk is cheap, the big question was - could we pool our funds into one grant making pot and make a collective decision? The answer is yes, and the “side” benefits have been significant:

- We had to get our act together and align goals first, before we went out to the community.
- The pooled fund forced us to discuss a wide range of issues we otherwise wouldn't have; and in doing so increased our individual and collective knowledge and effectiveness.
- We created one application for grantees and require only one (concise) progress report, not nine.
- We built a new level of trust by working together that is having residual effects, like openly talking about failed grants and sharing what we know about grantees and peer funders in open, constructive ways.

Sustained relationships between funders have to become a core, inherent practice, not a “nice-to-have” or isolated initiative. And that doesn't just mean the specific definition of “collective impact,” but **collaborative funding and work in all its forms**, like public-private partnerships, joint ventures, etc.

Allan Golston, head of US Program at the Gates Foundation told me, “Collaboration with other funders pushes your thinking, decreases the noise of being unilateral, and forces alignment.” The Mary Reynolds Babcock Foundation, a regional funder in the South, has adopted a network-focused approach to its grant making for years.

To build the Empire State Building as fast as they did had to have taken incredible connectedness between a myriad of sub-contractors. This one practice can affect the other four practices through deeper, stickier relationships and good ol' peer pressure, creating a virtuous cycle. The practice among funders is important and the “side benefits” of how it affects all of our other practices may be even greater.

#4 - BUILD STRONG BOARDS, MANY TODAY ARE THE OPPOSITE

When someone asked me a few years what the single biggest problem is in the social sector, my answer wasn't hard – weak Boards, the practice of governance. So many boards, from all sectors – foundations, NGOs, community organizations (as well as the private sector) - either do not a) *understand* and / or b) *carry out* their role correctly and effectively.

Why would people a) not *understand* the role of a board correctly? Because we often frame it incorrectly. Even the term “Board of Directors” is ill-framed. Board connotes overseer and Directors conveys that they spend their time directing, both largely wrong. People on Boards are stewards of a mission, have fiduciary responsibilities, exist to find great leaders, and to think about the future, risks, what-if's. People don't “sit” on Boards, they “serve” on Boards.

So many boards end up being a micro-manager (too close) or “read & react” where they show up and approve whatever the exec leadership brings (not close enough). In the nonprofit sector, a bad or low-performing Board can ultimately threaten the organization's existence, especially when times get tough or there is a leadership transition. Just to re-iterate, the principles and ideas expressed here apply to nonprofit and funder Boards; the dynamics are sometimes different, but the core needs are much the same.

Our funder boards are inherently insular and disconnected, if we don't work against some natural forces. It is no small challenge for institutional staff and individual philanthropists to get closer to the customer and peers; it is ten times harder for boards to do so ... or, more accurately, it's ten times *easier* for them *not* to. Funders don't have shareholders and there's little built-in accountability to anyone. To have a great Board, we have to *impose excellence upon ourselves*.

A consulting colleague of mine works with philanthropic families, and related that “it starts with messed-up governance. You have families not trusting staff. The way they interact and what they expect is so different than what they would do in a private sector setting, it's destructive. It drives a profound fear of failure and people are unwilling to be honest about what works and what doesn't.” It's not always that bad, but its way more common than we'd want to acknowledge.

As to b), why would people not *carry out* the role of a Board effectively? Look at the reasons why people join boards. Some are asked to join a Board because they have a lot of money, which may be good, but says nothing about how well the individual knows how to govern. Some individuals join to bolster their community image – not everyone but a lot of people do. Others join boards because a friend twisted their arm. All of these are about the person, not the mission, and sadly happen much more frequently than we'd hope.

The ramifications can be devastating. I know of two examples last year – one Board had been using a financial strategy of selling off real estate assets to cover operating deficits for years, only to reach the inevitable point where they had to drastically cut staff and programs to survive. And another where the CEO had verifiably used funds inappropriately, but the Board failed to prosecute and even gave her the opportunity to take the time to “exit gracefully,” while the organization's long-term programs were in peril. Neither Board was prepared nor competent enough to handle the challenges effectively.

As funders we have to 1) significantly increase our diligence about the board's leadership (not just Staff) when looking at organizations to *invest in*; 2) think about the board as just as integral to leadership as the Staff and therefore, we need to invest in strengthening boards too; 3) look at *our own* boards much more closely – are they practicing what we would hope our nonprofit partners would?; and 4) have a clear picture of, and be persistent, vocal advocates for, what a great board looks like.^{xvii}

This may be the most difficult practice of the five to change, because we can't directly affect grantee Boards (though we can impact our own, of course). We can't, and don't want to, control who is on other's boards, but we must get better governance. Boards are often weak links, failures happening every day in our philanthropic structure, like a poorly-fitted I-beam or a critical mistake by a welder in building the Empire State Building.

There are strong Boards and Board practices out there – the national YMCA, for the cross-representation they've assembled; National Council of LaRaza for the way they integrate and practice policy alongside their CEO; Atlantic Philanthropies for the decision to spend down their corpus (a whole other, positive-trending topic).^{xviii} Unfortunately these are exceptions.



We are going to have to self-impose better Board practices. If we don't we'll continue to "feel good" inside the Board room, divorced from the reality of what we are not accomplishing outside.

#5 - LISTEN TO OUR CUSTOMER, MUCH MORE CLOSELY

There are two realities that make philanthropic work so challenging and underlie countless dysfunctions – 1) there is rarely one clear social outcome (like profit in the private sector) to focus towards, that’s the nature of this work, and 2) most relevantly here, the ultimate beneficiary – the child in school, the forest that is damaged – usually doesn’t pay for the programs and services delivered.

In other sectors – for-profit especially, as well as the public, through taxes and fees – the customer is usually the one who pays. Companies have to listen to customers intensely because otherwise they won’t buy their product. JD Power fundamentally changed the dynamics in the auto industry by bringing the consumer’s feedback out into the open and making them a much stronger force in the whole system.

As funders, we are too removed from and don’t listen to the voice of the customer nearly enough. When I refer to the “customer” here, I do not mean someone to be marketed and sold to; rather it is the person using or benefiting from the services provided^{xix} (“customer” and “beneficiary” are interchangeable). Many times the deliberations between nonprofits and funders are sometimes an echo chamber in the absence of a vital third voice in the room, the beneficiaries.

Nonprofits are partly the voice of the customer, but funders are still too removed. ^{xx} There is often an unsaid, implicit assumption that the “experts” (philanthropic, academic, and other) know best, when in fact the community ultimately does or needs to co-own any plans, and absent listening to them, long-term success is almost unattainable. The Center for Effective Philanthropy just wrote an excellent report about the role of beneficiaries, “Hearing from Those We Seek to Help.”

There are numerous examples of this dynamic, but none as dramatic recently as Newark Public Schools. In 2009, Mark Zuckerberg, founder of Facebook, visited the schools and leaders and made one of his first big philanthropic grants for \$100 million to Newark’s struggling schools. As with any story this complex, there are many versions and opinions of a still-unfinished story.

Over the next five years, those funds were invested in teacher pay, curriculum, and bringing in outside expertise. There has been spotty academic progress and what began as a slow rumble of complaints in 2012 ultimately turned into a citizen revolt of sorts. Many parents pointed to a lack of “stakeholder input” and reported that the reforms were “imposed and done *to*, rather than in cooperation *with*, citizens.”^{xxi}

The key flaw in this philanthropic investment was not a lack of good intentions by Zuckerberg or Mayor Booker, it was the lack of connection to and engagement with the ultimate customer, the community. Whatever other factors led to \$100 million (plus funds from many other donors) being far less impactful than intended, the citizens of Newark ultimately rejected the “architecture” of their school system that had been designed *for* them, but not *with* them. As they say in the private sector, “the customer is always right” and in Newark, the customer spoke.

In the long run, philanthropists can’t just tell others how to fix their community. The “recipients” have to be participants. It doesn’t matter whether you think you need to engage and listen to the beneficiary for moral reasons, for PR reasons, or whatever reasons. Over the long haul, solutions to social problems do not work unless all the people involved are at the table. And it’s *very* hard work. Lance Fors, a Silicon Valley philanthropist / entrepreneur / SVP leader, told me once “It’s all about the diversity of stakeholders at the table, without which nothing can happen *or stick*.”

We have to re-frame how we authentically listen to and understand the customer. As funders, this is not easy, it's not the way our distribution system – funder to NGO to beneficiary – is set up, in most cases.^{xxii} We have two options. One is to develop a much *much* deeper connection via our grantees and what they know about their beneficiaries. However, this implies NGO's listen well to their customers, which is not always the case, so we might need to invest more in their capacity to do so.^{xxiii}

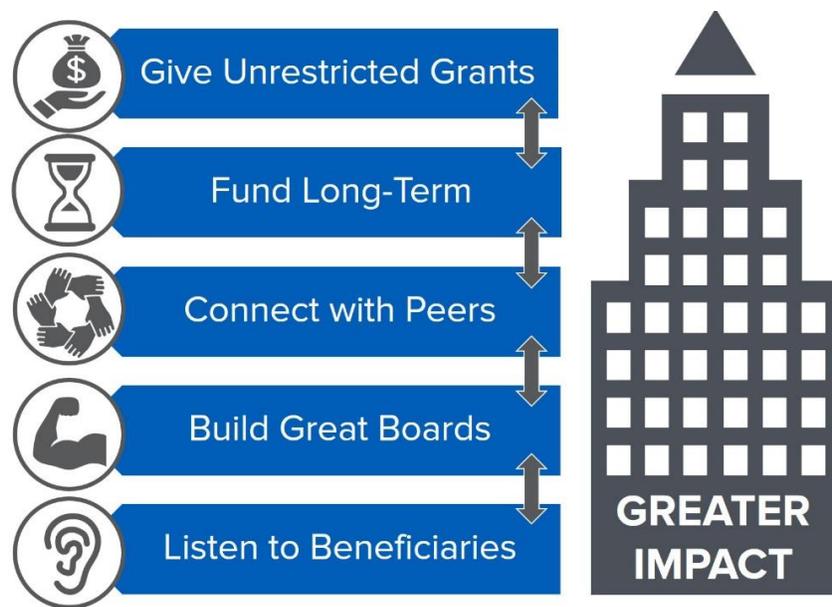
The second option is to find opportunities to personally dig in with the communit(ies) we want to help so we can co-create programs and services; this is where *cultural competence* is essential. At SVP, we have begun a renewed, core element of our work to directly and authentically listen to and engage with the community – not just independent grantee feedback, but going to community gatherings, and inviting the customer to talk to us in an open forum, which can be uncomfortable.^{xxiv} Power and humility will come to the fore. We, as funders, will have to own lowering the barriers of class and wealth that are so inherent in this work. Neighborhood Funders Group highlights funders that do a good job of this.

Mary Jean Ryan, who heads the Road Map Project in South King County, WA, a collective impact endeavor, said simply “Trust is the most important factor for success. People involved must have the trust of the communities in which they are working. Trust is earned by actions, sincere listening, building personal relationships. Trust is not a box to be checked ... trust is fundamental.” The people at Roadmap are doing the hard, at-times-uncomfortable, work of directly engaging with and getting to know the customer in the community. To *not* have so intimately engaged with the customer would have been inconceivable for a contractor like Starrett when they constructed the Empire State Building.

CONCLUSION – HOW THESE PRACTICES FIT TOGETHER

Last summer, my 12-year old, Sam, and I built a tree house. We kept building up and out, and between the scrapes and frequent missteps in our construction practices, it came together, part by part. The coolest thing about building the frame was that moment when the last of the joists and the final corner posts were bolted together. Until then, the walls felt flimsy. But, when the last parts were bolted in, you couldn't push the walls over if you had to - it made all the other parts so much stronger when they were connected together. It also made all of our "architectural" work on the paint and shingles and siding go so much easier and look a lot better. And, we did it *together*; I built it *with* Sam, not *for* Sam.

If we, as funders, improve or fix one philanthropic practice at a time, it matters. But if we want a strong, solid foundation that can support the weight of real change, then we need to combine all five practices in our work. These five practices work better together - changing one helps another, changing two or more practices strengthens the whole frame even more.



These five practices are distinct, yet interwoven. Here's what a stronger, more effective philanthropic system, like Sam's treehouse, with strong, updated practices would look like:

- Restricted funding is a relic of the past and nonprofits become much stronger, higher impact organizations. New funders are curious what those **now-extinct QDD's** were ever about
- Much more **funding is much longer-term**, and scaling effective solutions and more sustainable organizations gets easier
- **Connectedness to peers** becomes increasingly common, day-to-day practice and leads to more solutions being sustained (even a few funder mergers!)
- The practice of governance is transformed in ways never thought possible. **Good, strong Boards** are the rule, not the exception, and it's increasingly easy to find and develop great Board members
- Funders are much closer (sometimes interacting with) and truly **listening to the customer**, so our funding and programs are much better informed and mutually owned.

As I said upfront, these practices *should* strike you as boring or familiar. None of these changes are overly complex, but they each require breaking with long-standing traditions, assumptions, habits. Funders have become gradually more open to change in the last five years, it's just that we have so much further to go. GEO's recent report on "Grant Making Getting Smarter" shows hopeful, near-term progress.^{xxv} Much of any progress that has been made over the last ten years is in no small part because of Grantmakers for Effective Organizations (www.geofunders.org).

We have not adapted and evolved nearly as much as we need to, because frankly *we don't have to*. The funder world is almost completely unregulated and funders are accountable to almost no one, which is very inside-out. As Jill Vialet of Playworks told me, "it's hard to operate differently in a system that is still overwhelmingly unchanged." Funders have to be far more **outside-in**, accountable to beneficiaries and outcomes and other external drivers.

One of the motivators for the Empire State Building contractors and owners to radically change their construction practices was because they were competing against two nearby buildings. Whatever you think about their motivations, they changed because *they had to*; *they were* very customer-driven, outside-in. (And, by the way, they finished ahead of schedule and under-budget.).

As a respected nonprofit colleague suggested, after reviewing this paper: "The construction of a building is a process to follow for a goal; in this instance, a 102 story building that will safely defy gravity for generations. There was no one arguing for the construction of an igloo, pushing to use paper instead of girders because it was cheaper, or constructing the roof first because roofs are their favorite part of the process. We have funders arguing for paper because they don't intend to be involved for the long term or refusing to fund plumbing because they prefer roofs ... A necessary first step is deciding what we are going to build and how we will know when it is done. You can do all five practices and still fail if you are making great progress towards the wrong outcome."



As funders, we will have to largely self-impose change in our practices. One idea I'd like to explore is some kind of pledge or shared commitment for funders willing to truly commit to one or more of these five practices. Contractor work isn't sexy. It's more fun to think about architecture (yes, the design matters too). There is nothing contradictory about evolving our architecture while also making significant changes in our underlying practices; they are complimentary parts of our whole philanthropic system. But **we have to re-construct philanthropy, from the outside-in, and fundamentally change our underlying, outdated practices if we are to more positively impact communities and ecosystems.**

*We may have tear down some of the practices we've been using for decades, become much more **outside-in** in our practices. Just like a construction site, it will be messy, frustrating and costly at times. The contractor of the Empire State Building truly changed the game and took a quantum leap forward for their industry, by having the vision and guts to change their practices in fundamental, hard, but powerful ways. We can do the same for philanthropy and for our communities.*

IMPORTANT NOTE OF THANKS

In order to stress-test and cross-check my perspective on these five practices, I got a wide range of input and feedback from dozens of peers and colleagues. Many of them disagreed with some of my points and their names are simply my way of acknowledging their expertise and thanking them deeply for their time and wisdom, not to imply endorsement or support.

To each of them, *thank you*. You challenged me and made me think and work all that much harder.

Antony Bugg-Levine, Nonprofit Finance Fund; Glen Galaich, TPW West; Gregg Behr, Grable Foundation; Henry Berman, Exponent Philanthropy; Richard Woo, Russell Family Foundation; Sue Coliton, Paul G Allen Foundation (formerly); Ann Krumboltz, Brainerd Foundation; Jeff Clarke, Philanthropy Northwest; Tony Mestres, Seattle Foundation and SVP; SVP Seattle and Network and Affiliate Staff; Alice Shobe, Building Changes; Ben DeHaan, Partners for Our Children; Ben Klasky, Islandwood; Lisa Chick, City Year; Mary Jean Ryan, Roadmap Project; Kathleen Enright, Grantmakers for Effective Organizations; Phil Buchanan, Center for Effective Philanthropy; Neil Nicoll, YMCA USA (formerly); Mario Morino, Venture Philanthropy Partners; Laura Arrillaga-Andreesen, LAA Foundation and SV2; Fay Twersky, Hewlett Foundation; Eric Kessler, Arabella Advisors; Alexa Cortes Culwell, Philanthropy Advisor; Carol Larson, Packard Foundation; Lowell Weiss, Cascade Philanthropy; Kim Smith, Pahara; Andrew Wolk, Root Cause; Cheryl Dorsey, Echoing Green; Bob Wright, SVP Dallas; Evan Hochberg, United Way of America; Kim Syman, New Profit; Erin Kahn, Raikes Foundation; Aaron Jacobs, Edna McConnell Clark Foundation; Heather McLeod Grant, Philanthropy Advisor; Janet Levinger, SVP Seattle; Lucy Bernholz, Philanthropy Advisor; Rick Williams, Sobrato Family Foundation; Christine Letts, Harvard University; Sally Osberg, Skoll Family Foundation; Sterling Speirn, Kellogg Foundation (formerly); Lance Fors, Philanthropist and SV2; Larry Fox, SVP Portland; Jacob Harold, Guidestar; Paul Speer, SVP Portland; Peter Hero, The Hero Group; Chris Rogers, SVP Seattle; Melinda Tuan, Philanthropy Advisor; Andy Burness, Burness Communications; Hope Gleicher, Nonprofit and Philanthropy Advisor; Russ Hall, Legacy Venture; Ed Skloot, Surdna Foundation (formerly); Carol Lewis, Philanthropy Northwest (formerly); Cheryl Dahle, Future of Fish; Aaron Dorfman, National Center for Responsive Philanthropy; Michael Moody, Philanthropy Advisor; Mimi Siegel, Kinderling Center; Julie Pham, SVP Seattle; Jill Vialet, Playworks; Kevin Shaw, SVP Cleveland; Gerald Chertavian, Year Up; Tom Tierney, Bridgespan; Lynn Taliento, McKinsey; Doug Miller, European Venture Philanthropy Assoc; Katherine Fulton, Deloitte; Jeff Edmondson, Strive; Anne Wallestad, Boardsource; John Kania, FSG Impact.

ABOUT THE AUTHOR

Paul Shoemaker is the Executive Connector of Social Venture Partners Seattle and is the author of a new book, to be published by Wiley, Sept 2015, about civic and philanthropic leadership. Learn more about Paul at: <http://www.socialventurepartners.org/seattle/profiles/paul-shoemaker/>.

NOTES AND REFERENCES

ⁱ <http://www.generalcontractor.com/resources/articles/empire-state-building.asp>

ⁱⁱ I owe a big thanks to John Kania of FSG for helping me think about how to frame this paper as “outside-in”

ⁱⁱⁱ <http://www.socialventurepartners.org/what-we-do/>

^{iv} When I use the term “contractor,” I do not mean it in the sense that it’s sometimes used in our sector as a way of describing funders as contractors buying services from nonprofits as vendors.

^v I will variously use the terms NGO (non-governmental organization) or nonprofit or social purpose organization interchangeably, to mean essentially the same.

^{vi} And I won’t even go into detail about the CEO of another international NGO I just had dinner with, who described a junior accountant, from her funder, calling to ask what her justification was for a \$2,000 travel expense as part of a \$5 million grant.

^{vii} The ultimate contradiction in *restricted* funding may be when it comes to *collective* action. How can funders co-invest if some of their funding streams are inherently designed not to, i.e. restricted? It’s a contradiction in terms. When I asked Jeff Edmondson at Strive^{vii}, one of the leading practitioners of collective impact, whether restricted funds made collective impact more difficult, he said, “Absolutely. I often say it is harder to get investors to work together than NGOs. This keeps communities from moving forward ... With restricted grants, it makes it hard to ensure the dollars are following practices that work.”

^{viii} <http://www.geofunders.org/resource-library/all/record/a066000000FdIJ5AAN>, page 16

^{ix} <http://www.bridgespan.org/Publications-and-Tools/Advancing-Philanthropy/The-Donor-Grantee-Trap-Executive-Summary.aspx>

^x FC Stats, www.foundationcenter.org/findfunders/statistics - Types of Support Awarded by Foundation, 2011

^{xi} National Center for Responsive Philanthropy, www.ncrp.org

^{xii} NCRP article

^{xiii} At times, I may have been channeling some of Bridgespan’s work, especially “Stop Starving Scale,” in which they note “Private funders have fueled growth of global NGO’s, but the money comes with strings (or short terms) that can thwart these organizations’ ability to create the platforms needed to solve global problems ... the prevailing pattern champions collections of uncoordinated short-term projects that starve NGO’s for the resources to build capacity to replicate programs that work.”^{xiii}

^{xiv} http://www.huffingtonpost.com/kathleen-p-enright/too-strong-for-our-suppor_b_5716077.html

^{xv} <https://nonprofitquarterly.org/philanthropy/24460-the-foundation-tally-of-detroit-s-unprecedented-grand-bargain.html>

^{xvi} Skloot wrote about this eloquently in 2002, Building Boats, Slot Machines and the Future of Philanthropy - <http://www.gwu.edu/~ccps/rcq/issues/12-3.pdf>, pgs. 7-12. The timing of his essay is telling in itself.

^{xvii} I’ve sometimes used a rubric of 5 P’s - People - Get the right, and only committed, people “on the bus” and get bad actors off. This is hard, personal work, but we just have to do it; Preparation - Train board members through experiential and formal training. *Governance as Leadership* and www.boardsource.org are two exemplary resources to start with that are rarely required; Perspective - Think generatively, looking outside the day to day operations and focus more broadly on an organization’s purpose, probe assumptions, and identify underlying values that should be driving strategy; Purposeful - Board members should take their role seriously, know their job is to hire & fire the right CEO / ED, ensure a resilient financial strategy is in place, and make tough, mission-driven decisions; Point of View - Most NGO Boards lack true knowledge of how social change actually happens, so their orientation needs to be about understanding how incredibly complex it is, and not be simplistic.

^{xviii} Another good example comes from this piece about Gill and Haas Jr - <http://www.effectivephilanthropy.org/a-foundation-success-story/>

^{xix} The Center for Effective Philanthropy recently published an excellent report on listening to beneficiaries -

<http://www.effectivephilanthropy.org/one-dc-listening-to-beneficiaries-and-seeking-transformative-change/>

^{xx} I’m going to refer to “people,” generically, not meant to ignore the environment, animals, as other beneficiaries of philanthropy

^{xxi} <http://www.newyorker.com/magazine/2014/05/19/schooled>

^{xxii} One note here, pertaining to international NGO’s where the customer is halfway around the world; real-time, funder-to-beneficiary contact might not be as possible and even grind the work to a halt. Funders will have to balance the need for being closer to the customer’s perspective with the realities of where and how they fund. In this case, it raises the bar for knowing the NGO intermediary truly is in touch and that the funder leverages that knowledge intensely.

^{xxiii} An excellent resource is at <http://www.geofunders.org/resource-library/all/record/a0660000008FSGYAA4>, GEO’s report on *Widespread Empathy*.

^{xxiv} If you’d like to know more details about our emergent work around cultural competence and equity, please contact me

^{xxv} There is some meaningful progress in the last 3-5 years in unrestricted funding, grantee feedback, and funder collaboration, as evidenced in <http://www.geofunders.org/smarter-grantmaking/field-study>. Still much work to do