STRATEGIC PHILANTHROPY:
FIVE APPROACHES
FOR MAKING A DIFFERENCE
Introduction

As the strategic advisor to more than 1,100 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 modes of giving taken by foundations in their quest to make a difference:

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

Is one approach to giving better than another? We think not. Each can be “strategic” depending on one’s 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

SUPPORTING NEEDS AND PRIORITIES

Checkbook philanthropy takes its name from those spontaneous contributions made in response to an appeal for funding...pulling out the checkbook at a fundraising dinner or in response to a direct-mail solicitation.

In philanthropy circles, the term “checkbook philanthropy” often carries negative connotations, implying a lack of forethought or strategic approach. However, almost every private foundation practices checkbook philanthropy to some extent; this unrestricted mode of giving is a valuable and critically needed form of philanthropy.

Some checkbook philanthropists choose nonprofits 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 nonprofits or fundraisers.

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

Checkbook philanthropy appeals to donors who:

• Want to provide general support to organizations rather than targeting their dollars to specific programs or initiatives.
• Seek to spread their money around to many organizations.
• Want to give routinely to organizations or causes that have been important in their lives.
• Want to support nonprofit events as part of a social network of contributors.
ADVANTAGES

Checkbook philanthropy is a valuable way to cultivate new philanthropists and draw them into the world of charitable giving. By not following any formal guidelines or structured processes, these donors 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.

Although often characterized as “un-strategic,” checkbook philanthropy has distinct advantages. Because checkbook philanthropists operate largely outside of the formal field 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. This form of philanthropy provides much-needed resources to issues or problems that are so complex, intractable or poorly understood that a purely charitable approach is ultimately the most logical course of action.

Checkbook philanthropy has distinct advantages for nonprofits as well in that unrestricted donations are their lifeblood, 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 and requirements attached, charities would never survive.

DISADVANTAGES

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

Checkbook philanthropists do not typically engage in extensive due diligence, so the most effective nonprofits can be overlooked owing to their lack of sophistication around marketing and solicitation. Also, without formal guidelines outlining their preferred areas of funding and selection criteria, checkbook philanthropists may 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 organizations 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 checkbook philanthropists will have a large or lasting impact on any one of them; it also provides little opportunity for these donors to develop a deep knowledge base about particular issues and concerns. Finally, the lack of accountability that checkbook philanthropists require of nonprofit organizations makes it hard to ascertain the true impact of their donations.

**HOW TO DO IT BETTER**

If you are a checkbook philanthropist, recognize the strategic value of this form of giving and keep it up! If you are planning to donate to an organization, give when the organization first requests the donation to save it the cost 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. Finally, try to look past marketing pizzazz, and instead evaluate how effective the organization is in fulfilling its mission.

**Responsive Philanthropy**

**SUPPORTING NEEDS AND PRIORITIES**

Responsive philanthropists actively solicit proposals in their area of interest. As these 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,” and “Environmental Sustainability.” To help clarify their mission, and to narrow down the universe of potential grant-seekers, responsive funders develop and publicize guidelines that become the basis by which they accept and review grant proposals.

Responsive philanthropists respond to requests initiated by nonprofits rather than seeking out organizations themselves. It is within this approach that donors begin to earmark funds for specific programs, rather than providing general funds for grant recipients to use as they wish.
This responsive method of grantmaking appeals to donors who want to:

• Provide support to a few focused areas.
• Fund specific programs, as opposed to organizational overhead.
• Place conditions on their grants, such as requirements for matching funds, timetables for deliverables or reporting outcomes.

**ADVANTAGES**

This form of philanthropy moves donors from funding organizations to funding specific projects and initiatives. Responsive funders focus on limited giving areas, increasing their impact instead of dispersing their funds among a broader array of issues and organizations. If carefully constructed and well-publicized, the process of requesting and receiving proposals can effectively function as a “needs assessment” of a community by providing a sense of the type and number of projects in need of support. This enables these donors to target the most pressing issues of concern in their communities.

For nonprofits, responsive funders’ publication of guidelines or issuance of “request for proposals” (RFP) helps unearth foundations interested in supporting their causes, allowing them to save time and money by focusing their efforts where there is the greatest chance of success. Having explicit, published selection criteria encourages responsive funders to be consistent and fair in choosing potential grantees, moving away from a system where the best “in” might be being personally acquainted with the donor or board members. In return, having a formal application process enables these donors to receive a greater number of ideas from a wider range of organizations without having to do extensive research or networking.

**DISADVANTAGES**

There are, of course, pitfalls to a responsive funding approach. Since the number of nonprofit organizations is often imperfectly related to social need, the requests responsive funders receive may not necessarily reflect the highest priorities in the community. The range of concerns the funder can support under this model is also limited to causes and issues where there is a pre-existing nonprofit.
There is also a great temptation for responsive philanthropists to favor 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, they may end up disproportionately favoring those nonprofits with professional grantwriters rather than the best or most worthy organizations.

From the nonprofit’s perspective, many responsive grantmakers call for proposals that feature “special projects” or “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 our after school programs, 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 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. For this reason, responsive grantmakers need to guard against the tendency to become more focused on the internal processes than external results. Having a formalized grantmaking process limits a donor’s ability to provide prompt support to immediate concerns, so the personal rewards of philanthropy can become lost in the formality of the grant 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 nonprofits that bend their programs to suit your interests.
VENTURE PHILANTHROPY

BUILDING CAPACITY FOR GROWTH AND SUSTAINABILITY

Venture philanthropists apply venture capital tactics and 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 get their chosen nonprofit “investees” into good financial shape. Their goal is to help investees improve their operational performance so they can eventually scale up their programs or become self-sustaining. In addition to financial support, venture philanthropists contribute their own time and talents, and connect their investees to consulting and technical advice in areas such as strategy, management, accounting and data collection. Prior to committing any funds, venture philanthropists undertake extensive due diligence about an organization’s potential for excellence. Grantees are often held accountable for achieving specific benchmarks 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. A venture philanthropist’s operating dollars and focus on core functions provide a welcome shift from program-based grants. The comparatively long time horizon of venture philanthropy investments is also a boon for nonprofits. 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.
This focus on achieving measurable results from investments has done much to address the historical lack of standards and benchmarks regarding nonprofit performance. Improved operational efficiency is an important factor in the long-term survival of a nonprofit in an increasingly competitive funding environment. Last but not least, this form of philanthropy gives successful executives and entrepreneurs an opportunity to leverage their business acumen and networks to support the organizations and resolve the issues and causes they care about.

**DISADVANTAGES**

There are a number of as-yet unproven assumptions underlying the venture philanthropy approach. Practices and approaches that donors import from their experience in the for-profit sector may not translate directly to the nonprofit realm. Also, venture philanthropists sometimes operate under the premise that nonprofits not only want help in strategizing and carrying out their work, but that they possess all of the skills and talents that these nonprofits lack. Despite best intentions, the donor’s deep involvement can squash the vision of the nonprofit’s founder, or breed resentment among its staff.

Although venture philanthropists intend to make their investees self-sustaining and then move on, exit strategies in the nonprofit sector 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 diffuse (e.g., youth development, homelessness). They may fund a handful of organizations working on a different aspect of an issue with no “master plan” of how these organizations might build upon or amplify each other’s work. The idea behind this form of philanthropy is to invest in a number of 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 entered. Let each organization know how long you are willing to fund it and the conditions under which your support could be suspended.

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 aim to get at root causes rather than addressing symptoms. In this model, the focus is on solving problems, not funding organizations—nonprofits are merely a means to an end. These donors look to support organizations that can execute a given part of the strategy, based on their leadership, experience and reputation.

Results-based grantmakers start with extensive research to understand the problem, its underlying causes, and possible leverage points. Based on this research, they narrowly define what aspect of the problem they are going to work on and choose a specific, achievable goal. Then, they conceptualize a portfolio of grants to address the problem: each grant is part of a cluster that operates in concert with others towards a common objective. These clusters of complementary grants attack the problem on multiple fronts.

In results-based philanthropy, the concept of leverage is key: these philanthropists want to impact the most people for the fewest dollars. To do so, they work with individuals and organizations in the nonprofit, for-profit and governmental sectors. In evaluating their impact, they keep a constant eye on a few measures that reflect progress on the problem they are trying to address. 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 timid about assuming a controlling role.

ADVANTAGES

Although an effective model for many types of social issues, results-based philanthropy is particularly suited to donors who want to fund unpopular, orphaned or newly emerging issues where the nonprofit infrastructure may not be well-developed. Because results-oriented donors focus their efforts on a key “leverage point” where they believe they have the best chance for success, they often have big wins when things work out as planned. Though more expensive up front, if successful, this “leveraged” approach is much more cost-effective than providing one-by-one direct service grants.

DISADVANTAGES

There are a number of downsides that prevent 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 expensive research and consultation with experts, nonprofits and other funders trying to find the best and most leveraged way to tackle the problem. Throughout the life of the strategy, donors must be willing to invest the time, money and energy to stay up to date, collect information on the success of their approach, and make mid-course corrections along the way. And despite a significant investment, taking this strategic approach to solving social problems does not guarantee success. If a 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 nonprofits 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, and grantees feel “strong-armed” to fulfill the donor’s agenda rather than their own, it can breed resentment. And if the chosen issue is controversial, this more proactive approach to philanthropy is likely to generate strong opposition from vocal critics, often aimed at the donors themselves.

HOW TO DO IT BETTER

Do not attempt to reinvent the wheel. In undertaking a results-based approach, it’s important to have a good understanding of how others have previously attempted to solve the issue or problem. Talk with your foundation peers about how they developed their grantmaking strategies and the results of their efforts. Keep an eye on the end goal and be prepared to change course if you are not making progress.

Collaborative Philanthropy

SHARING SOLUTIONS AND BUILDING KNOWLEDGE

Collaborative giving recognizes the limitations of any funder acting alone by bringing together a group of donors interested in the same issue or region. 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, according to each funder’s abilities, knowledge and interests. Each funder reinforces and complements one another’s efforts. One may focus on building the capacity of nonprofits working on the issue; another on developing the research base to support a call for action; and a third may concentrate their efforts on raising public awareness.

Collaborative philanthropy is an excellent model for donors who:

- Want to maximize the funds and talent devoted to an issue.
- 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 donors who feel similarly committed and are passionate about the same issues.
ADVANTAGES

This approach brings with it the advantage of scale—the ability to effect social change grows coincident with the increase in dollars and expanded network of multiple funders. On a personal level, donors working collaboratively can learn and work with like-minded peers, 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. This approach also reduces redundancy and increases the chances of success as multiple funders with the same agenda pursue a common strategy for achieving it, acting in concert rather than undermining each others’ efforts by unintentionally working at cross purposes.

DISADVANTAGES

Building consensus is easier among “kindred souls” than dissimilar groups. Social change organizations—foundations and nonprofits alike—all have unique visions, 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. A collaborative group must achieve some degree of consensus about their objectives and how to accomplish them. This can be hard for activist donors who are used to running the show and spending their time and money as they see fit.

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 those aspects 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 fit?
- 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 that shapes the strategic philanthropist.

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 more than 1,100 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, and then help you execute that plan.
ABOUT FOUNDATION SOURCE (www.foundationsource.com)

Foundation Source is the nation’s largest provider of comprehensive support services for private foundations, bringing unparalleled knowledge and expertise to clients across the country. The company’s administrative services, online foundation management tools and philanthropic advisory services provide a total outsourced solution for private foundations. The result: better-run, more effective foundations and more enjoyable philanthropy. Our clients supply the funds, the vision and the philanthropic goals; we provide everything else.

Today, Foundation Source provides its services to more than 1,100 family, corporate and professionally staffed foundations coast to coast, ranging in size from $250,000 to over $500 million. The company provides its services directly to philanthropically focused families and institutions as well as in partnership with the nation’s leading private wealth management firms, law firms and accounting firms. Foundation Source is headquartered in Fairfield, Connecticut, with auxiliary locations in Atlanta, Chicago, Dallas, Denver, Los Angeles, New York City, Philadelphia, San Francisco, South Florida, and Washington, D.C.