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# The Next Wave in Philanthropy

Challenges and Solutions for a Country in Need

BY STEVE CUTLER

For the industry of philanthropy and the people and causes it serves, this era in which we live is the best of times and the worst of times, a Tale of Two Americas, if you will, when great fortunes are being generated for many while economic and social burdens have intensified for many more.

At the same time charities are concerned with how they might fare during the economic downturn we seem to be settling into, generous and committed private donors are giving more money to and getting more involved in philanthropic endeavors. And perhaps more important,

**'..44-percent of gifts of \$1 million or more go to higher education, while just 16-percent goes to medical, 12-percent to arts ...'**

the philanthropy industry is discovering sophisticated new methods to advance their causes and raise and distribute money.

It's hard to gauge the damage done by an economic downturn except in hindsight. According to Stacy Palmer, editor of *The Chronicle of Philanthropy*, "The effects of a downturn aren't always immediate. Philanthropy usually lags a year behind the bad times, and then is a year behind in recovering."

But, she added, "I think there are already signs for some groups. A lot of the wealthy

groups are doing just gangbusters, but a lot of the small groups that serve the poor are having a hard time."

Plus, said Ms. Palmer, "There isn't one story on how the economy is affecting giving. It's really quite different depending what kind of organization you are and what part of the country you're operating in."

Americans gave a record \$295 billion to charity in 2006, the last year that has been tallied, and many industry professionals say that 2007 was better and 2008 will be better still.

## Government Cut-Backs

But, observed Ms. Palmer, "about a third of the income from most non-profits come from some kind of government subsidy, so when things are bad at the government level that hits the non-profits directly. And the government is cutting back."

Plus, she added, non-profits are more burdened with demand for their services when government funds dry up. "All the people who are seeing their services cut back in various ways turn to non-profits for help even more."

In addition to spending cuts on federal social service, health care, arts and economic development programs, President Bush has proposed reducing federal grants to states and cities.

As of March 14th, 22 states have projected budget shortfalls totaling at least \$39 billion in fiscal year 2009, including New York State, which projects a \$4.6 billion shortfall. And a National Governors Association survey conducted in January said, "If the current downturn follows the path of previous recessions, 35 to 40 states could face budget cuts in 2009."

New York City faces its first budget deficit since 2004, and intends to cut funds

to all city agencies, including some \$1 billion in cuts in funding to schools.

Non-profit groups hit by budget cuts are disproportionately those that focus on social services and health care, the very sectors that would see the biggest increase in need for their services in an economic downturn. And non-profits serving these sectors are often down at the bottom of the list of causes supported by the biggest donors to charity.

## Where the Big Money Goes

A survey in the *Chronicle of Philanthropy* in January reported that while large organizations like universities, hospitals and museums are receiving record donations, social service organizations are struggling.

The survey found that 44-percent of gifts of \$1 million or more go to higher education, while just 16-percent goes to medical, 12-percent to arts and culture and five-percent goes to human services such as anti-poverty, housing or homeless organizations.

Interestingly, the economic downturn that has taken shape over this past half-year or so is affecting charitable organizations differently than typical downturns of the past. In the recession of the early 1990's, and then again during the economic downturn after 2000, charities of every sort to varying degrees had a difficult time raising money.

But recently, small organizations supported by individuals of moderate income and corporate donations have been getting less money in donations, while top-tier charities supported by loyal large donors

have received record increases. Just this month, Blackstone Group founder Stephen Schwarzman gave a \$100 million dollar gift to the New York Public Library and Leonard Lauder gifted \$131 million to the Whitney Museum.

According to Naomi Levine, chair and executive director of the George H. Heyman Jr. Center for Philanthropy and Fundraising at New York University, "There's less glamour if you give to some little soup kitchen than if you give to the opera."

## Pretty Hip Thing to Do

Ms. Palmer puts it another way. "Everyone wants to hang out with Bono. We're in one of those eras where giving is considered a pretty hip thing to do."

According to Sean Stannard-Stockton,



Icon of the old: Industrialist Andrew Carnegie gave over \$350 million dollars in his day.

## OBSERVER PHILANTHROPY

principal of Tactical Philanthropy at Ensemble Capital Management in Burlingame, California, "It really is a cultural shift. Philanthropy is hot right now."

"If you think about Bill Gates," said Mr. Stannard-Stockton, "it's not the money that makes him so important, but the fact that at age 50, the richest, most powerful CEO in

## 'The second great wave of philanthropy has its roots in the innovations that took hold in the financial world beginning in the 1980s.'

the world said, 'I've got a more important job to do than running Microsoft. I want to run my own foundation. That is a higher calling.' That has a big impact on people."

Indeed, noted Ms. Palmer, "more people are giving while they are alive rather than through their estates and not leaving quite as much to the children. And people are getting more involved. They see the problems out there in the world and they say, 'why should I wait?' And also they see

how much fun it is to get engaged in it. They won't be able to do that if they just leave money when they die."

Beyond the renewed interest in good works among donors and the media, several recent innovations in the operation of foundations promise to help support the industry through challenging times.

According to Mr. Stannard-Stockton, "We are in the midst of the early stages of the second great wave of philanthropy." The first wave grew out of the works and writings of Andrew Carnegie in the late-1800s, the time when private individuals first took to philanthropy as a calling and formed and financed institutions to build libraries, hospitals and schools.

The second great wave of philanthropy has its roots in the innovations that took hold in the financial world beginning in the 1980s, said Mr. Stannard-Stockton. The ownership of stock before 1980 was largely the domain of the wealthy. The emergence of mutual funds, the 401k and financial planning in the 80s gave individuals greater participation in the stock market. "They allowed everyday people to use a lot of the tactics that were once reserved for the ultra-wealthy," he added.

### The Giving Years

"The baby boomers who were in peak savings years in the 80's and 90's," said

Mr. Stannard-Stockton, "are now hitting retirement, the giving years. You can see why these same people who have become used to participating in financial markets are now participating in philanthropy." And using their financial prowess to direct their funds in creative ways.

Another milestone in the democratization of philanthropic funding came about with the establishment of the Fidelity Charitable Gift Fund in 1991, a new type of financial product, the "donor-advised" fund, which allowed small donors set up their own little foundations.

According to Lucy Bernholz, principal of Blueprint Research & Design, a philanthropy consulting company, the Charitable Gift Fund "unbundled the two parts of philanthropic products—the financial product, the place you put the money—and the person giving you advice about what to do with it."

"Those two things had been bundled together ever since John D. Rockefeller founded his foundation and hired his buddy to run it for him," she added. "Fidelity was saying there's a market for a place to put the money where individuals make the decisions."

In 2007, the fund granted over \$7 billion to more than 111,000 organizations, and, added Ms. Bernholz, "every other mutual fund company, investment bank, university and community foundation sells donor-advised funds now. They all offer advice about what to do with the money, but for the most part a donor-advised fund is a placeholder financial product where you get immediate tax deduction for those resources and then direct them to wherever you want to see the gifts go. That separation of the service from the product has been a significant factor in the way philanthropy works now."

But while new these innovative philanthropic products provide a valuable new source of funding, a venerable older source, foundation grants, could weaken in an economic downturn.

"At least 60-percent of the assets of endowed foundations," Ms. Bernholz pointed out, "are usually in the equity market." With the market plunging, they might have to adjust their giving accordingly. "Usually the decline in foundation giving shows up a year to 18 months after the bottoming out of the market," she added.

What does not weaken is the resourcefulness of committed philanthropists. "I have spoken to a lot of entrepreneurial philanthropists out there," reported Ms. Bernholz. "Some of them are very young people who say, I've identified the end I want to get to and I'm going to get there either commercially or through a nonprofit place."

One example is Pierre Omidyar, founder of Ebay, said Ms. Bernholz, "who set-up



Bill Gates has transformed the way we think about charity.

something he calls the Omidyar Network, to which he dedicated a sizeable chunk of his assets which he uses both to invest in things charitable and invest in commercial enterprises that he think will ultimately have a social good."

### Fundraisers Buckle Down

Meanwhile, most of the more than one million charities registered with the IRS that have incomes less than \$50,000 a year will need to redouble their fund-raising efforts.

They will be appealing to big donors to increase their gifts and searching for ultra-wealthy individuals who are still unidentified and untapped. They will be strengthening their volunteer programs and intensifying their advocacy efforts with the government and the media.

One key to success for a foundation in any economic climate, according to Ms. Palmer, "is really getting good people interested in serving on the boards and making sure that they are properly trained and really understand what the role of the board is."

Besides bringing their money and their friends to a charity, said Ms. Palmer, "a good board should make sure the organization is being well run and that it is looking at what challenges it faces in the future. They should understand the industry and the competitiveness of the world around it."

Rather than micro-managing, as boards tend to do, said Ms. Palmer, "they should look at the big picture. Is the organization even going to be needed 10 years from now? What is it going to be doing and how is it going to be doing it?"

"And the board should represent a lot of different points of views and various kinds of expertise rather than just being wealthy people from a particular industry who know each other. You don't want an insular view of life. You want people who can bring lots of different points of view to the board table."

### Future Leaders

Another important concern for a lot of philanthropic organizations, now that many of their baby boomer founders are reaching retirement, is whether they are recruiting new generations of leadership, so they can sustain themselves.

For this resource, Ms. Palmer ventured, there exists a fertile field.

"You have many people in the business world who say, at age 50, what have I done with my life? We're seeing an enormous amount of interest from people who were in for-profit professions, who say, if I have 10, 15, 20 years of work left, I want to do something that's more meaningful. And so they're turning to nonprofits."

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## GENEVIEVE PITURRO

The Pajama Program

It was fun climbing the corporate ladder, “but I got to the point,” recalled Genevieve Piturro, “that I think a lot of women get to in their mid-to-late-thirties where I said, ‘Is this all there is?’”

A lover of reading, she decided to spend some evenings taking books to parentless kids who had been abused or abandoned and left temporarily in shelters and programs. “A lot of these kids had been just taken out of a bad situation and didn’t have anything but the clothes that they’d been wearing or hand-me-downs they got from a staff member.”

Just before leaving the kids at bedtime to return home, recalled Ms. Piturro, “what I witnessed was not the bedtime a child should have. It wasn’t tuck you into bed, put on clean, warm pajamas, snuggle up, get a kiss from mom and dad and fall asleep while mom or dad is reading a book.”

Struggling to find a single thing that might begin to address their needs, she asked the staff, “Can I just at least bring some pajamas next time?”

She did, and next found herself asking friends and family to contribute new

pajamas—they had to be fresh and new—and in time *Parenting Magazine* was alerted to “this lady walking around Harlem who’s got pajamas for kids,” recalled Ms. Piturro.

The *Parenting* piece led to the first milestone for the budding Pajama Program. “I got calls from manufacturers saying we have 1,000 pairs of pajamas we want to donate, she said. “Land’s End was the first one. Boxes started to arrive at my apartment in Riverdale.”

In the aftermath of Katrina, The Pajama Program drove trucks with over 11,000 pairs of pajamas to victims of the disaster. The foundation has grown to include 72 chapters ready to deliver pajamas and books to disaster victims around the country and the world. Its recent growth is due in part to Piturro’s appearance one year ago on Oprah.

It’s also a result of a solid business plan, to which Ms. Piturro credits the attorney that helped set up the foundation, their CPA and a conscientious and committed board of directors. The Pajama Program has earned a 20 out of 20 rating by the Better Business Bureau, a designation that earns trust among donors.

Ms. Piturro isn’t terribly concerned about the country’s economic struggles as yet. “I think people still want to give,” she said.



“Their hearts still want to give and it’s not going to stop. But I think that they are choosing places that touch them personally and where they can see evidence of how their money is helping directly.”

Like a fresh, clean pair of pajamas.

## KEN GROSSO

Powered by Professionals

There are two kinds of people: those in need and those who need to give. Need to give, emphasizes Ken Grosso, co-principal, along with Darren Port, of Powered by Professionals, a philanthropic consulting company.

“The need to contribute is one of the basic human needs,” he explained. “We can’t survive without fulfilling that need. That’s why I started this business, to stretch people’s minds enough so they understand how important it is that we each commit a percentage of our time and a percentage of our money towards giving back to others.”

Nominated for Entrepreneur of the Year by *Inc. Magazine*, the six-year-old firm is a one-stop philanthropy shop aimed at empowering people at every level to connect with a cause that suits them, whether to start a foundation, donate money, products or services or volunteer their time.

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Ken Grosso and Darren Port of Powered by Professionals.

Turn the Corner, which fights Lyme disease and A Caring Hand, a bereavement center started by Susan Esposito-Lombardo, who lost her father in 9/11 at the age of 24.

“Susan came to me six years ago,” said Mr. Grosso, with a deep emotional desire to create a legacy for her father, but no particular vision to hang it on. “So we started digging deeper and deeper,” he recalled, “and we realized her best thing would be to gear it around kids – maybe helping kids deal with grieving the loss of a parent. Now six years later we just raised enough money to open the first ever non-clinical child bereavement center in Manhattan.”

The grand opening of the Caring Hand center was held a few weeks ago. “Now we need to keep the doors open – pay the rent,” said Mr. Grosso. Powered provides back-office managerial services for foundations, reducing their staffing needs, but the name of the game for charities is fundraising and that never stops. And the coming year could be particularly challenging.

Mr. Grosso believes he and other philanthropic entrepreneurs will come up with ways of raising money that will revolutionize the industry. “But I think the most important thing,” he said, “is to empower everyone to be able to contribute and to show them how big an impact they’re making.”

**NAOMI LEVINE**

*Chair and Executive Director of the George H. Heyman Jr. Center for Philanthropy and Fundraising at New York University*

A legendary, transformative figure in philanthropy, Naomi Levine has spearheaded campaigns which have raised some \$2.5 billion for New York University, helping to take the university from a good commuter school in a great location to one of the top and most sought-after institutions of higher learning in the country.

As head of NYU’s George H. Heyman Jr. Center for Philanthropy and Fundraising, Ms. Levine has designed and implemented programs to help train professionals in advanced methods of fundraising in the increasingly complex philanthropy arena.

But asked directly about the extraordinary success she’s had raising money for NYU—just how does one raise more than \$2 billion?—Ms. Levine demurs.

“I was effective because we have a marvelous board,” including the late Larry Tisch and developer Larry Silverstein, she said, “which understood that their role is not just to sit there for honor or glory, but to help raise money. And to give money.”

Pressed about her personal approach to



solicitation, Ms. Levine replied, “I never asked for money. I asked for support for a project, like medical research, and that’s an exciting thing when you look at it that way. It’s important.” It makes people want to get involved.

Indeed, while tireless in setting and achieving financial goals for the school, “I never looked at my job as raising money,” said Ms. Levine. “New York University wanted to become a first rate university and you can only do that if you have the money to pay for the laboratories and a great faculty. So I got involved.”

Motivation was never a problem. “If I’m asking you to give money for scholarships,” said Ms. Levine. “I remember

that I couldn’t have made it to law school without a complete scholarship.”

And the work was never boring. “I did it for 26 years and I enjoyed it,” said Ms. Levine, “only because they were projects I believed in. They were exciting.”

Besides, she said, “I was exposed to really quite a remarkable group. Michael Steinhardt is an exciting and interesting man. Larry Silverstein, Leonard Stern, Phyllis Wagner, Bob Tisch and Larry Tisch—these were interesting people.”

“Why shouldn’t I be happy working with people of that quality?”

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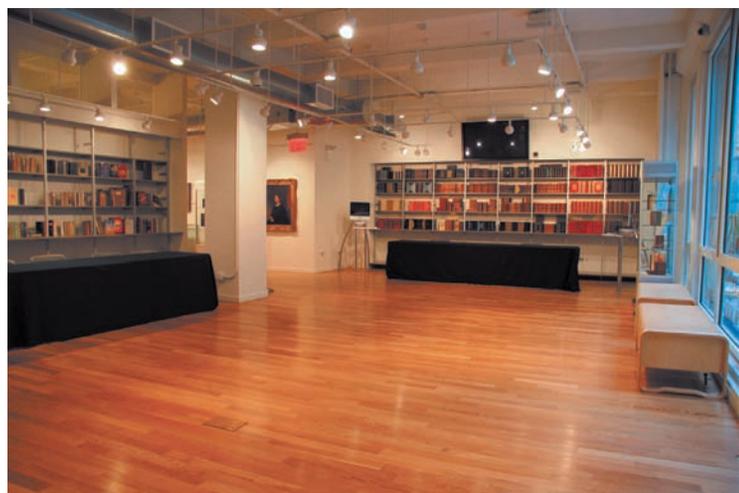
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