



Stanford PACS  
Center on Philanthropy  
and Civil Society

# REFLECTIONS ON PHILANTHROPY

**FROM THE 2017 PHILANTHROPY INNOVATION SUMMIT**

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# ABOUT STANFORD PACS

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Stanford PACS is a research center for students, scholars, leaders, and practitioners to explore and share ideas that create social change. Its primary participants are Stanford faculty, visiting scholars, postdoctoral fellows, graduate and undergraduate students, and philanthropists, nonprofit, and foundation practitioners.

Stanford PACS has relationships with five schools at Stanford University (Humanities & Sciences, Engineering, Education, Business, and Law) and more than 15 departments, and we leverage the intellectual assets of a diverse, world-class faculty across the university. This provides a unique platform to create knowledge and share it with the nonprofit and for-profit communities in Silicon Valley and globally.

Stanford PACS offers postdoctoral fellowships, PhD fellowships, and financial support for undergraduates completing honors thesis work. Additionally, Stanford PACS sponsors regular public speaker programs and symposia and philanthropy salons that include speakers who are well-known public intellectuals, philanthropists, and academic, foundation, and nonprofit leaders.

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# ABOUT STANFORD SOCIAL INNOVATION REVIEW

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*Stanford Social Innovation Review (SSIR)*, published by Stanford PACS, informs, energizes, and motivates social change leaders from around the world and from all sectors of society —nonprofits, foundations, businesses, academia and government. Through an array of channels—daily online content, a quarterly print publication, monthly webinars, thematic conferences, podcasts, asynchronous learning assets, and more—*SSIR* bridges research, theory, and practice, and addresses a wide range of social issues (including economic development, human rights, public health, and education) and solutions (like impact investing, social entrepreneurship, and nonprofit business models). *SSIR*'s award-winning content is created for and by current and future social change leaders.

It is *SSIR*'s mission to advance, educate, and inspire the field of social innovation.

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# EXECUTIVE SUMMARY

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Every two years, the Stanford Center on Philanthropy and Civil Society hosts a Philanthropy Innovation Summit. At this day-long event, peer philanthropists, Stanford faculty, scholars, and leaders share their inspiration and expertise, authentic stories of successes and struggles, and results-oriented approaches to social change.

At this international convening, individual and family philanthropists connect in order to brainstorm with one another, leverage Stanford PACS research to catalyze effective philanthropy, and take away actionable ideas, best practices, new strategies, and new networks with which to amplify one's impact as a philanthropist.

This collection of articles, written by individuals at the Philanthropy Innovation Summit, expresses key themes, learnings, and questions that emerged throughout the day. By sharing these reflections, we hope philanthropists and social change leaders around the world will be better informed and even more motivated to leverage strategic philanthropy in tackling society's most pressing challenges.

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*Videos and additional materials from the Philanthropy Innovation Summit are available at: [pacscenter.stanford.edu/summit2017learning](http://pacscenter.stanford.edu/summit2017learning)*

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# **A MISMATCH IN PHILANTHROPIC INTEREST AND SUPPORT**

**PHILANTHROPY FOR NONPROFIT  
GOVERNANCE AND CAPACITY BUILDING**

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By Caitriona Fay

Many a dollar has been spent on books and at business schools in the quest to find the magic ingredients that create high-performing businesses. Corporate boards and leaders spend an inordinate amount of time worrying about how to invest in growing a quality organizational culture, building great strategies and bold visions, supporting their leaders, and mitigating risk. These factors indicate the strength of a company, and investors seek out strong companies because they know their investment is safe in its hands.

Those same organizational competencies matter in the nonprofit world too. Nonprofits that can demonstrate a clear strategy, capability, and leadership are better equipped to provide social and environmental returns. Now more than ever, social investors are attuned to nonprofits' capability to deliver on their missions. Organizations that fail to articulate how they use funds to advance their mission face a future where philanthropic dollars are harder to find.

This mission focus is perhaps best evidenced in my home country of Australia, where a year ago the federal government released its once-in-a-decade "Giving Australia 2016" report. The report examines everything from what drives individuals to volunteer to which charities are receiving corporate support and why. It also provides insight into the factors that motivate individuals and families to establish foundations and what ultimately influences their giving practices.

### THE VALUE OF GOVERNANCE CAPABILITY AND COMPETENCE

After personal alignment with a cause, philanthropists surveyed for the report were most influenced by

governance capability and general competence. A resounding 92 percent of philanthropists who responded indicated that nonprofit governance and competence were critical to deciding where their grants flow.

But it's important to note that when we're talking about governance and capability, we're really talking about organizational capacity. In the report, one philanthropist highlighted the themes at play, suggesting that they would not consider giving hundreds of thousands of dollars to an organization that doesn't have strong organizational capabilities.

Concerns around organizational capabilities relate to the ability of an organization to create and deliver on

strategy, manage its core assets (human, financial, infrastructure, and data assets), mitigate and deal with risk, and ultimately deliver impact.

Unfortunately, for many philanthropists, assessing organizational capacity is somewhat subjective. Philanthropists surveyed for the report noted that their perception of an organization as an issue area expert was important, but so were their previous interactions with that organization and whether the organization was responsive, reliable, and communicative. These factors are not easily quantifiable.

My organization, Perpetual, is one of Australia's oldest trustee companies and philanthropic advisory businesses.



With more than 1,000 charitable trusts and endowments under management, we couldn't possibly employ subject matter experts across all fields. Instead, we advise the philanthropists we work with by assessing the organizational capability of charities of all sizes working in all sectors.

Our assessment process works like this: Charities that seek support from our philanthropist clients complete an application form focused on organizational details—as opposed to information about their specific programs or projects. From these responses we can see how the charity:

- Measures and maps its effectiveness
- Measures and maps its efficiency
- Tracks external factors influencing how it works
- Manages and mitigates risk

The only project-focused section of the application looks at how the organization will track the outcomes of its work.

We give each response a score and then aggregate the totals so that we can better evaluate which organizations are top tier. Organizations that score within our recommendation range receive 95 percent of all funding from the philanthropists we work with.

This effort has several benefits: It is replicable across issue areas, removes the subjectivity that can come with a narrative-based assessment process, and is highly transparent for the applicant organizations.

We don't restrict the type of funding organizations can ask for. They tell us that this approach leads them to apply for what they need rather than what they think might appeal most to individual donors. It's not surprising that when provided with this freedom to ask for anything, nonprofits often request support to increase their capacity through staff training, infrastructure upgrades, leadership development, and consulting.

### FUNDING ORGANIZATIONAL CAPACITY

The second big takeaway from the report is that while philanthropists may increasingly value organizations with strong governance and capacity, we don't see them increasing their capacity-building grants to match. If philanthropists genuinely believe that governance and organizational competence are critical to providing good outcomes, then why isn't giving to training, strategy development, infrastructure support, and board capacity-building more common?

In their article titled “The Nonprofit Starvation Cycle,” Ann Goggins Gregory and Dan Howard of Bridgespan describe how many nonprofits find themselves chasing funds for the next “innovative” project rather than for their own capacity to deliver outstanding outcomes. This cycle is perpetuated by funders with stringent limitations on what can or cannot be supported, including caps on administrative costs. Assessment methodologies that evaluate charity programs based on funder priorities rather than on organizations' capacities to meet the needs of their communities are only feeding into this cycle.

Identifying and investing in well-governed nonprofit organizations is critical to improving funder effectiveness. To find these organizations, philanthropists need an assessment methodology that addresses questions on strategy, leadership, capability, and mission. Philanthropists should feel confident investing in nonprofits that have a culture centered on tracking effectiveness, managing resources well, and mitigating risks.

If philanthropists genuinely believe that the best-performing nonprofits have outstanding governance capabilities, then we must see greater investment in helping all nonprofits improve in that area. That means committing resources to build additional governance support, investing in strategy development, leadership capacity, financial management, and even board fundraising proficiency. A rising tide of improved governance capability has the potential to lift the performance of the entire sector and ultimately lead to better outcomes for communities.

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*Caitriona Fay is the national manager of philanthropy and nonprofit services with Perpetual, one of Australia's oldest financial services companies and one of the country's largest managers of philanthropic funds.*

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