INFLECTION POINT STRATEGIES – COMPARING EUROPE & THE US
UBS PHILANTHROPY ROUNDTABLE – PALO ALTO
10 April 2007

Inflection Points?

One of the delights of Max Martin calling up from UBS to invite me to prepare a talk for a meeting like this is that he always comes up with great titles – using words that, in my case, usually require a visit to the Dictionary. As I read his email I scratched my head – what on earth are Inflection Points?

As always, I turned to Google for help – and, again as usually happens to me, it dragged me off into some very strange corners of knowledge.
I didn't understand the first definition it gave me at all – not a great beginning:

> "An inflection point is a point on a curve at which the sign of the curvature (i.e., the concavity) changes. Inflection points may be stationary points but are not relative maxima or relative minima."

It was not immediately clear to me how that connects to philanthropy!

Then I found a reference to a book with a splendid title: 'Only the Paranoid Survive' – and things seemed to be getting better. The author, Andrew S Grove writes that:

> "An Inflection point occurs where the old strategic picture dissolves and gives way to the new. It's a moment of dramatic change, especially in the development of a … market."

That seemed to connect well with Max's briefing about contemporary changes in philanthropy – though I got a bit cautious when I read the next bit:

> "that change can mean an opportunity to rise to new heights. But it may just as likely signal the beginning of the end."

A Market Moving to a New Equilibrium?

So, is this a moment of dramatic change in Philanthropy? A market moving to a new equilibrium? In Europe and in the USA? Indeed – globally?

Well, I read in the latest newsletter from Rockefeller Philanthropy Advisers that "Philanthropy is Hot." One of the Advisers wrote that "we have gone from 'I'm sorry, what do you do for a living' to 'hey, great – who are you trying to help and what are you trying to do?'

And, in Charles Handy's latest book, describing 23 new philanthropists, he writes that "Generosity is fashionable again."

Moreover, the Sunday Times in the UK, has doubled the section on philanthropy in its annual 'Rich List'. The Economist is carrying regular features on philanthropy. Indeed the American Business Editor of the Economist, Matthew Bishop, has coined the term "philanthrocapitaism" around which the global philanthropy journal, Alliance, has built its current issue[1] which asks "what are the world's new donors really like?"

There seems to be lots going on – in all continents.

[1] Alliance March 2007 (www.alliancemagazine.org)

This Presentation
What I've been asked to do now – which I hope will be useful to you and to this roundtable – is to highlight:

- some of the changes going on in philanthropy in Europe at present
- some of the similarities with developments here in the USA, and
- some of the strategies being adopted by individual philanthropists and foundations that may amount to 'inflection points' – moving the philanthropic market to new equilibrium.

First, though, a few preliminary – and cautionary – comments:

1. Data: is all this flurry of media coverage supported by the data? In Europe, we are not so well served as you are here in the US with accurate and reliable data about philanthropy – or, indeed about the charity, social enterprise, Third Sector, community or not for profit sectors (the multiplicity of terms used to describe this arena, using different criteria and categories to include and exclude, is just part of the data problem).

For example, when I was preparing this presentation, I wanted to check levels of personal philanthropy in the different countries of Europe – I found three different data sets, using different methodologies, giving different answers. This makes comment tricky – and means that we are often in *known unknown* territory, speculating on trends which are largely drawn from anecdotes and individual stories.

2. Generalisations: generalisations about philanthropy are easily made but are likely to be unreliable – and probably should be avoided!

In the UK, for example, there are about:

- 170,000 general charities with an annual income of about £27 Billion
- Just 14 of them generate 10% of that income
- 87% share just under 8% of that income
- Indeed 57% of all those organisations survive on just 1.1% of the money.

If we focus just on the grant-givers in the UK, it's a similar story. There are estimated to be about 8500 charitable trusts and foundations giving away perhaps £2 Billion a year – of them just one, the Wellcome Trust, distributes 20% of the total. And probably only about 45 hand out more than £5 million each year – and perhaps only 400 give away over £100,000. The overwhelming majority are small – individual or family donors or the charitable arms of companies.

How can you generalise about a market looking like that? There is such huge diversity in both demand and supply. One thing is to make sure you always distrust pundits like me sounding off about the philanthropy or charitable sector – we can make the statistics paint almost any picture we like to support our particular argument!

3. Language: It's not just that the Americans and the British use the same words to mean different things – there are major differences across Europe in how some of this philanthropic terminology is used and understood. If you asked, say: What is philanthropy? Or What is a philanthropist? Or even, What is charity? Linguistic, cultural, social differences will lead to a range of responses within and between different countries – responses and definitions that are often irreconcilable with each other – in some countries, indeed, the question would probably just be greeted with incomprehension.

In any debate, therefore, there's an acute need to define terms carefully and clearly

Philanthropy in Europe

Here are some of the headlines:

1.Diversity – national – for example, on what Foundations do, indeed, as to how they are constituted and behave. Most recognisable in the US would be the foundation scene in the UK – a mix of:

- long established family endowed foundations
- foundations linked to companies
- a network of community foundations
- some very high profile grant-making charities raising their money from TV and media led appeals

Recognisable, but still very different – there is no 5% annual payout requirement, for example – indeed, endowed foundations in the UK probably distribute no more than 3% of their wealth each year.

Elsewhere in Europe many foundations are much more operational rather than just grant-making – they are active players in their charity environment: they commission work direct, they run services, they create new organisations. A couple of years ago, the CEO of one of Europe's leading Foundations published an assessment of foundations across Europe – he identified a range of distinct traditions:

- He paired the UK with US, describing your/our Foundation tradition as 'Anglo Saxon'
- He distinguished these from those in the Rhineland, the Mediterranean, Scandanavia, and, also, from developments in the countries of eastern and central Europe that are now becoming increasingly linked to western Europe

In each of these parts of Europe, there are different philanthropic traditions and institutions determined by religious, historical, political and social differences. The book, *Foundations – Creating Impact in a Globalised World*[2] – is one of a number of encouraging indicators of the growing connections and collaboration between Foundations across Europe and a welcome example of the early stirrings within Europe of research into current trends and in depth analysis of philanthropy – progress reflected in the advances being made by the European Foundation Centre.

There also are hugely different levels of individual giving in different countries. I checked World Bank statistics on levels of personal giving as a % of GDP (Gross Domestic Product) in a sample of western countries:

- In Europe, in the middle: Ireland and the Netherlands: 0.5%
- The UK: 0.7%
- Germany: 0.2% and France: 0.1%
- Compare the US? 1.67% - more than 3 times the average in Europe.

Are these comparisons reliable? They may be useful indicators of difference, certainly – but comparing like with like – doubtful. The German tax system, for example, has an opt

[2] Luc Tayart de Borms *Wiley* 2005

out religious levy which distorts their results and is not included – if it was, they would be much higher.

There are also differences between countries in the proportions of charity income coming from individuals, foundations and companies and legacies.

- In US, for example, 77% of giving is by individuals, 5% from companies, 12% from Foundations
- In the Netherlands, it's 42% from individuals and 43% from companies.

Sorry about the storm of statistics – but they illustrate the point about diversity: at a national level, there are huge differences in philanthropic behaviour between different countries of Europe – and between Europe and the US. The funding 'ecology' is different – one 'inflection point', perhaps, is for funders to acquire an understanding of the funding environment within which they are working. It will influence, probably shape, what they do and how they do it.

This need for a clarity about the arena in which a funder works is especially important, I believe, for philanthropists and foundations. They have the terrific privilege of freedom of action – far more than a public or a corporate funder: they can back the unusual, the experimental, the risky, the quirky; they can back their hunches and they can translate their social and cultural passions into action. Such funding is precious – and scarce, given levels of demand. It's all the more important, therefore, that philanthropic funds are not used to support work or activities that could be funded by the state or through corporate sponsorship.

2. Diversity – regional: there are big regional differences within countries, too. In Germany, for example, in the former east Germany, personal giving is half that in west Germany. Regional economic prosperity is an obvious factor, but not the only one – for example, in England, donations made in the prosperous region centred on London are significantly larger than the national average; but the proportion of the population who are regular givers is smaller in that region than in Wales or Scotland or the relatively poorer north east region of England.

3. Diversity – personal wealth: the sectors of the population who give – how much they give and to what – also varies: the poorest 20% of the UK population give over 3 times more of their income to charity than do the wealthiest 20%. In the US the most wealthy 10% do 50% of the giving; in the UK it's just 21%. In the UK, moreover, the rich tend to support different causes from the less well off – giving much more to religious causes and to the arts, for example, and much less to health and animal welfare charities than do those who earn less.

4. Diversity – age and gender: there are also big differences in giving between different age groups and between genders – in how much they give, when in life and to what.

5. Diversity – of attitudes to the role of religion and to the state: across Europe, there are big differences in the influence on philanthropic practice both of religious faith and in attitudes to the role of the state for providing basic public services – these impact dramatically on how much is given philanthropically and to what.

6. Diversity – of attitudes to international giving: finally, there is a big difference between Europe as a whole and the USA in attitudes and generosity towards giving money to support work in developing countries, the poorest communities in the world. In the UK, for example, 13% of charitable donations are made to international causes; in the US it's just 3%.

In almost all of these, however, there are significant indications of change – in attitudes towards charity, towards amounts of giving, towards the sorts of philanthropy people wish to engage in and how they want to behave as philanthropists – which leads us on to find increasing similarities between the most active philanthropy within Europe and within USA.

Europe – US: similarities

1. The New Philanthropists. Is this just some temporary media fuelled fashion – or does it 'have wheels' and lasting substance? I think there's evidence of real change. In UK, for example, one of UBS's Private Bank competitors, Coutts, reports that their very wealthy market has changed significantly:

- 15 years ago: 75% was 'old' money, inherited, family – an emphasis on 'stewardship' for future generations;
- Now 75% are people who have acquired and built that wealth themselves – and while they are still young; a group afflicted with what I heard described recently as "Sudden Wealth Syndrome"

Some of these are discovering in philanthropy an arena in which they find they can be active – and successful. Some are very conservative in their giving, but some are not – in particular they are keen to ensure their philanthropic investments have immediate impact – to make a difference during their own lifetime. Many are not looking to establish a Foundation in perpetuity; they do, however, want what they support to be of lasting benefit, to make a permanent and sustainable difference.

They are also interested in being more engaged than 'traditional' donors – to get involved with the organisations they support – or to set up organisations themselves to implement their social aspirations. They want to be DIY, do it yourself, philanthropists: philanthropic entrepreneurs.

They use technology comfortably – and expect others to do so as well. And they travel – so they'll go and see for themselves, not rely on advisers or intermediaries. And they are interested in talking to each other, in learning from each other – in Europe, for example, in forums like the European Venture Philanthropy Association.

An individual example form the UK: Dame Stephanie Shirley – a very successful IT entrepreneur who had to introduce herself as Steve rather than Shirley when dealing with Banks in the early days of her business! She came to Britain in 1939 – as a lone unaccompanied child refugee. The primary and powerful driver for her philanthropy is rooted in traditional altruism:

> "My personal history is the main reason why I give. As a refugee, I need to justify the fact that my life was saved while so many others were lost."

Her personal experience also informs her attitude to philanthropy:

> "I've been a recipient of charity and have been sensitised to issues in ways that people who have always had enough money – not to be hungry anyway – find hard to imagine"

And in her philanthropic practice, she voices something that is a feature of the work of many of the new philanthropists:

> "I never, ever, just write a cheque. I use my business skills, along with my wealth, to do the things I'm good at. I pioneer new projects – projects that wouldn't otherwise happen and that, if successful, make a real difference."

Dame Stephanie is also, however, keen to caution some of the new philanthropists to 'learn their craft' and not to blunder clumsily into the charity world – assuming that, because they have been successful in business or finance, they can immediately do the same in the charity sector; beware the "narcissitic philanthropist" as one commentator wrote recently.

2. A New Market Place to work within: the new philanthropists are finding that the charity sector is a market place – the dynamics of which they need to understand. It includes big and small participants on both the supply and demand sides. Some very big names dominate the latter – Save the Children or Oxfam for example in the international arena; the NSPCC or Barnado's within Britain: huge, multi-million enterprises. But most charity and community organisations are fragile, financially and organisationally, under-capitalised for what they are trying to do; often unable to afford to buy in key skills and capacity. This is so in the US, too – I heard Lester Salomon from Johns Hopkins speaking recently, describing 51% of the non-profit sector as experiencing "fiscal stress."

They chase after any sources of finance they think might help – sometimes finance that is inappropriate or requires them to bend to the whim of the funder in a way that distorts or undermines their core mission. It is vital, within that market place, to go beyond what one commentator has called the 'Dance of Deceit' where both the applicants for funds and those that provide funds collude in propositions that they know in their guts will not deliver the goods, funding that tends to be perverse in outcome:

- short-term when the task can only be tackled on a long term basis
- insufficient to deliver the intended outputs
- under-priced so that the recipient organisation is weakened at its core – funding practice which can harm rather than help the organisations it was intended to support
- burdened with high and wasteful transaction and compliance costs
- and subject to something that some of the new philanthropists have, perhaps, been rather too keen to impose, quantative measures which are time consuming to record and not necessarily of value to the work being supported – measures, for example, that are more about the quantity of "lives touched" than about the quality and sustainability of what is actually provided.

It is important, therefore, to use funds to encourage and underpin enterprising behaviour within the market place – and to help fledgling or unjustifiably weak organisations acquire confidence and the ability to plan ahead.

3. New Ways of Resourcing - there is new thinking going on in the US and across Europe about how to resource charitable endeavour in more creative and effective ways than before. To look beyond grants for additional ways of using philanthropic funds, for example:

- Possible ways of recycling money by making loans alongside or instead of grants
- Underwritng to alleviate risk or to attract new funds
- Linking funding to performance – a form of quasi-equity.

And new players are appearing on the scene to assist philanthropists – see the current issue of *Alliance* for an article about these new 'intermediaries' – in the UK, for example, we have analyst groups like New Philanthropy Capital, intermediary 'pooled' funds like Venturesome – and the private banks are taking an interest, led most actively, ofcourse, by UBS.

Inflection Points in Philanthropy

So – what about these inflection points? These triggers? And how to get the philanthropic timing right – the moment when it's possible to tackle a difficult issue effectively? And how to assemble the resources – of money, people, talent and levers – to really get to grips with the problem?

I suggest 5 strategic components – I'm sure others here will add more:

1. Evidence – personal philanthropy will always be based on passion about a cause and/or for the work of the person/people at the centre of a particular organisation – but that passion can be built on and enhanced with knowledge and evidence. When thinking about whether to get stuck in to something – and at what level – it's important to be satisfied about:

- The need – scale, nature, what the prospects are for change, the consequences of continuing neglect
- What's being done; what works, what's been learnt
- How the pieces of the funding jig-saw can be assembled – and where is the best place within it for philanthropic funds.

So – it will be productive philanthropy to invest in knowledge – both to inform yourself and the organisation that might be supported – and as a resource for others, to encourage others to learn more.

2. Engagement; following the example of Steve Shirley and many others who have found that they have skills and expertise (and time) that they can contribute – beyond just the gift of money. They can get actively involved in tackling the challenge they want addressed, the problem they want solved. But, it's also important to follow Steve's example of engaging with sensitivity, checking that the organisation that is to be helped shares your enthusiasm for working that way and understands the deal – and how it is different from 'traditional' funding; so engage in ways that are clearly appropriate, 'light touch' and proportionate.

3. Focused funding – what to fund? It may seem easier, perhaps, to fund a specific building or bit of equipment – or a very narrowly defined activity – it feels more tangible, more visible. But for charitable organisations, support for their basic working capital and their organisational core is likely to be most welcome – particularly if the donor is planning a long term connection. The more adventurous new philanthropists seem to 'get this point' more than their predecessors; they want to fund the creative people, the creative organisations – to help them to build and deliver what they are good at and not to restrict them too tightly or to expect instant results.

And if a donor does prefer to fund something more specific or a single project – then to fund it fully makes a huge difference. Charities spend an excessive amount of time assembling contributions to projects – too many donors appearing to prefer scattering lots of small grants to many organisations; it can be a very inefficient way of funding a new project, incurs high transaction costs, and takes longer.

A 'just right' approach to the amount and the terms can make a profound difference; as can the recognition by the donor that they may be taking on a long term commitment – not just a short term project: "a marathon, not a relay race."

4. Philanthropic Funds – to greatest effect: I've already emphasised the preciousness of philanthropic funds – their special nature – it's worth trying to ensure that they are used to greatest effect. So it seems to me to be self evident to make sure that the organisation that is to be supported has reviewed alternative ways of funding what they want to do, by:

- generating income themselves
- securing support from government
- appealing to corporate sponsorship

– before determining that philanthropic funds are the only way to make something happen – or that can be used to 'lever' in funds from other sources. Always test out ways to make the philanthropic dollar work hard (and also ensure that the funding passes the "Do No Harm" test that is failed by some perverse current funding methods to which I have already referred).

5. Tell the Story: my fifth bit of inflection – look for opportunities to tell the story. Be prepared to at least consider being an advocate, a missionary – to encourage and inspire others through example and through demonstration to join you and to follow your philanthropic adventure

Final Thoughts

1. It's not easy to get this sort of philanthropy right. As one far from new philanthropist (Aristotle) commented – in a statement with which I expect you are already familiar:

> "To give away money is an easy matter and in any man's power. But to decide to whom to give it, and how large, and when, and for what purpose and how, is neither in every man's power nor an easy matter."

But it's not rocket science and there is no need to make it overcomplicated – keep it simple; ensure you are not one of those to whom one philanthropist referred when he complained:

> "All these eminent people telling me that to be philanthropic is difficult – that I must take a lot of time and effort to make the right decision, that I must be 'strategic' – that just trusting my judgement is not enough; it puts me off doing anything. There must be a simpler approach which will help me make a real difference – but not expose me to making donations which go wrong?"

There is – and his comments are a good reminder to any philanthropist to be clear of purpose and to keep a sharp eye out for 'the Inflection Points' – of timing, of tactics, of applied learning – which will help ensure high quality decisions and engagement with the outcome (but also never to lose sight of serendipity, the opportunity for giving that arrives unexpectedly but is so breathtaking and inspiring that it must be supported). These tactics will not only help make philanthropy fascinating, but also fun – an activity which has positive impact; which brings me to my second 'final' point:

2. An extract from the Guide To Giving[3] that Philanthropy UK has produced for new donors:

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[3] A Guide to Giving *Philanthropy UK* 2005 (www.philanthropyuk.org)

> "Impact is the social return on your investment in a disadvantaged community; it is the standing ovation at the performance of a musician you have supported; it is inspiring others to give. Impact is a park preserved; a patient cured; a diploma earned; a mouth fed. Impact is helping a woman gain the self confidence she needs to start her own enterprise; it is the smile on the face of a young cancer patient, simply because you showed up; it is your own satisfaction in knowing you have made a difference."

I hope that adopting a thoughtful, confident 'Inflection Point Strategy' can deliver those sorts of outcomes and experience for you.

David Carrington
April 2007