

**UBS Philanthropy Forum – Wolfsberg  
21-23 April 2005**

**EXERCISING LEADERSHIP THROUGH PHILANTHROPY**

**HOW CAN PHILANTHROPY BE LEVERAGED TO ADDRESS  
GLOBAL CHALLENGES?**

How can Philanthropy be leveraged to address Global Challenges? That's a big question – I was already intimidated by the prospect of speaking to an audience with such a wealth of experience and knowledge – the sort of people I queue to hear, not stand before them. A session title like this certainly added to the intimidation!

I was especially uncertain about the use of the term leverage – what does it mean? So I followed the route of the nervous – and resorted to the dictionary – or in my case to the wonders and comfort of Google. No shortage of definitions there.

1. the action of a lever: “push the long part of the stick down, the short end moves a small distance with great force” – apologies for the gender distortion, but the definition went on to assert “that a man can easily lift several times his own weight.”
  - Well, maybe something there – a philanthropist achieving more than his – or her – money alone can buy.
2. then there were a mass of definitions relating to finance – “the degree to which an investor or business is utilizing borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt ; they may also be unable to find new lenders in the future. Leverage is not always bad, however”...it continued but by then I was already moving swiftly on until I spotted a sub-definition, that referred to leverage as a ‘bargaining chip’ - in the form of an inducement or a concession useful in successful negotiations
  - Well, maybe something there for a canny philanthropist looking for leverage.
3. a term also used in judo – but I couldn't find a connection with the gentle world of philanthropy there.
4. more relevant was “strategic advantage; the power to act effectively.”
5. then I found a whole academic theory relying on the term – the “theory of constraints.” It did not make a great deal of sense to me until I read that the theorist argued that there are levers, or places within any complex system, where a "small shift in one thing can produce big changes in everything" and that she claimed we not only need to realize the existence of these leverage points but also to know where they are and how to use them. According to her:
  - “most people know where these points are instinctively, but tend to adjust them in the wrong direction. The understanding of these

leverage points would be powerful information to solve major global problems such as unemployment, hunger, economic stagnation, pollution, resources depletion, and conservation issues.”

- Progress on the definition there, then – pull the right levers and we could be tackling some significant global challenges – and doing so effectively.

Then I realised that I was on the wrong page – I was looking at definitions of leverage as a noun – in the title of the talk, it’s used as a verb, “to lever.” So what can Google deliver on this? Lots more:

- to supplement (money, for example) with leverage
- to improve or enhance
- to add as a supplement to what seems insufficient
- to leverage the money that is already available; and finally,
- to produce an effect by indirect means: to influence, or (when used as slang): ‘clout’.

That’s the one for me – a philanthropist with clout – influential, acting effectively and making an impact.

So with that definitional hurdle crossed, where are we?

Well, at this early stage of a forum like this, there may be some other bits of preliminary clarification to get onto our collective table before we can draft an answer to the question posed in the title of this session – rest assured that they do not involve any more meandering around Google!

So I thought I would use this spot in the programme to offer some general observations about how philanthropists – both individual philanthropists and institutional ones like foundations – might act in order to “have clout.”

First – I find that whenever trying to make sense of the world of philanthropy it is important to steer clear of generalisations or superficial sweeping statements about what it can achieve.

For example, in the UK we have about 180,000 organisations that have been registered as charities – I’ll quickly break my rule and go back to Google for a definition of a charity:

“an institution, organisation, or fund established to help the needy, to exercise benevolence or generosity toward others or toward humanity.”

The diversity of what these charities – these philanthropic organisations – do, why they were established and who was involved in setting them up is astonishing.

So too is the huge range of their size and finances. How can you generalise about a sector in which (in the UK):

- 1.6% of the organisations account for 68% of the total charitable income

- Just 306 charities receive 39% of the sector's total annual income?
- 59% of all charities receive 1.4% of the income?

My first response to the question, therefore, is this: to have ‘clout’, philanthropists should invest in knowledge and understanding of their chosen area of philanthropic activity – global challenges pose tricky and complex questions; so:

- Find out who’s doing what
- What are the needs and the opportunities for action and development?
- Where are those “leverage points” that the constraints theorist referred to – the ones where, if accurately done, a small shift can have big outcomes?

And, as the philanthropic work develops, invest in the know-how it generates – the lessons learnt; and spread the word around to guide others who can apply that knowledge and experience elsewhere.

The combined use of a philanthropist’s resources and knowledge – that can have substantial leverage.

Second, a valuable feature of philanthropic funds is their independence – but they seldom operate in isolation.

The charity sector in Britain has an annual income well in excess of £20 Billion. Of that total, foundations – institutionalised philanthropy, as it were – contribute just 5.3%. The main funders of the sector are:

- individual donors – whether through planned giving, instant reactions to the shaken bucket or can, or through legacies (19.9%)
- sales and fees (26.6%) – again, mainly from individuals
- investments (8.5%)
- grants or contract income from central and local government (34.6%).

But, the 5.3% has the potential for great leverage and influence. Foundations do not have to answer to the Public Accounts Committee, which scrutinises public spending; nor to shareholders; nor to the general public.

Foundations, as independent operators, can:

- do wonderfully imaginative and creative things
- take risks on maverick individuals
- provide essential seed capital for clever and original social entrepreneurs
- support noisy advocates
- be patient and long-term in their support.

As Rockefeller argued, foundations can undertake:

“the imaginative pursuit of less conventional charitable purposes than those normally undertaken by established public charitable organizations.”

Or as the settlor of the Nuffield Foundation observed:

“Those responsible for the disposal of private funds have a healthy duty imposed on them to accept risks which cannot be proper to those accountable for the tax payer’s money; they should venture those funds for experiments about whose success there may be some measure of doubt.”

Adventurous philanthropy can be a powerful lever for change.

So, my second response to the question: philanthropists should try always to be distinctive with the ways they use their resources and energy; not follow the herd, never be ‘just another funder.’

But they should also look for allies and alliances. Collaborative effort, done well, can ensure that  $2+2=5$  – and can secure extra leverage as a result.

Third – we need to be sure about what sorts of philanthropists we are talking about. Much of the literature separates the philanthropy of an individual or family from that of the philanthropic institution, a foundation. I think that distinction is increasingly unhelpful. It seems to me that the active and engaged individual philanthropist has more in common with the foundations that describe themselves as strategic funders than with the donor responding to the TV appeal or what in the UK are called ‘chuggers’ (‘charity muggers’! – the people with clipboards you meet on the pavement in London trying to persuade you to sign up as a regular donor to the charity whose banner they wear).

And the foundation that describes itself as strategic is likely to be operating to a wholly different agenda – and in a very different way – from that which prefers to concentrate its charitable funds on alleviating immediate needs or suffering.

Some foundations, of course, do both, and we should be careful not to fall into the trap to which Susan Beresford of the Ford Foundation referred when she wrote that:

“I sometimes worry that people who see themselves as professional philanthropists denigrate charity. They may see it as out of date and wasteful, because it does not address the root causes of problems. But charity – giving to address immediate needs and alleviate suffering – shores up many essential activities of non-profit groups. Many disadvantaged people depend on free clinics, food banks, community centres and other such services. Societies are imperfect and always have some families and people in need, and donations for these purposes are essential. So let us not fall into knee-jerk critiques of charitable giving.”

But in the same interview, she also said:

“We should not live forever with problems we can solve. Foundations and other donors can support people with ideas about new solutions – this is what I mean by strategic philanthropy.”

My third response, then, is to observe that philanthropy does not have to be exercised through a specific organisational structure to address global challenges:

- it can be an individual act
- it can be done through an intermediary
- it can be done through a community foundation, a giving circle or a network or group of individual donors pooling their philanthropic resources
- it can be done by an operational charity like Oxfam or Save the Children
- it can be done by the Ford Foundation – or by the smallest family charitable trust.

And all can use their resources and skills in ways which have leverage – even the smallest.

As Margaret Mead observed:

“Never doubt that a small group of committed citizens can change the world. Indeed, it’s the only thing that ever has.”

Fourth – are philanthropic resources being used counter-productively? Is anyone keeping an eye on where the foundation’s assets are invested? Many of you will be familiar with the experience of the New York City based Cummings Foundation which discovered that, in the same year in which it had spent \$650,000 on four grants aimed at holding big agribusiness environmentally accountable – with a particular focus on the hog industry – their investment managers had bought a large block of stock in Smithfield Foods, the largest hog producer and pork processor in the world – and one with a checkered environmental record.

As the Foundation’s CEO ruefully acknowledged:

“The practice in foundations has typically been for the program areas to focus on mission and the investment committee to focus on financial returns, with little – if any – awareness between these silos....And yet, social and economic justice requires an integrated society. Corporations and business cannot be separated from concerns about health, the environment, the arts, about how we live our lives.”

Looking for leverage to address global challenges? Given the Cummings experience, maybe one response is to follow the urging of Jed Emerson to:

“make a start at bridging the ‘investment gap’ – the chasm or firewall between the financial capital that foundations invest in economic worth, and the social capital through which foundations pursue investments in social value. The goal for all foundations should be to bridge this gap, creating the largest set of overall returns possible – financial, social, and environmental – to maximize total value and total returns on investments.”

Two more thoughts before I finish:

1. Some philanthropy can harm. I recently wrote a paper in which I suggested that some current grant-making practices that have been adopted by funders in all sectors have had perverse outcomes. I may have lost some

friends with that paper. I argued in it that, far from building the capacity and the social and financial capital of NGOs, some grants were weakening the very organisations that they were intended to help by being, for example:

- a. overly restricted in purpose
- b. insufficient to pay the full costs of what the funder claims to be supporting
- c. subject to an excess of conditions or compliance reporting
- d. not allocated for a long enough period to make the achievement of the objectives feasible
- e. tied up with often spurious performance measurement requirements which are intended to provide comfort to foundation trustees who want to know if what they are doing is having impact - a gentle reminder may be useful in such situations of Einstein's view that:
  - "Not everything that can be counted counts, and not everything that counts can be counted."

For an already under-capitalised sector, that sort of grant-making is not positive philanthropy – it is, in effect, negative leverage.

So, philanthropists need to keep an eye on the effect of the ways they fund – the systems and processes they use – and not just on what they fund. They should trust and listen to the organisations that their philanthropy supports – and not adopt processes or behaviour that stifle or impose on them.

2. Second – Acknowledge Dependence: the philanthropist is (usually) dependent on the people he or she supports for whatever public value or social change may result from the use of his or her philanthropic money. Only a few are taking on global challenges in person. Most fund others to do so.

There is a tendency among philanthropists to assert that “our money” achieved this or that; it's like the claims about the impact of a foundation's funds – attributing to the foundation a particular outcome. The reality is that the money is just one ingredient of achievements that have been secured by the work of others, people the philanthropist had the excellent judgement to spot and get behind, certainly – but there are always lots of variables at work determining if a particular action succeeds or not. Effective philanthropy can make success more likely – but it is only one ingredient.

I wonder, therefore, if the most effective and lasting leverage is when a philanthropist's resources and efforts have engineered changes that others have achieved and now regard as their own; so my final homily for

philanthropists with 'clout' is to emphasise the power – and the potential leverage – of giving credit, not taking it.

David Carrington  
April 2005