

The Grantmaking Formula for the New Normal

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Thank you and I am delighted to be here. Delighted because even though I have lived and worked in and around New York City for 12 years, I still consider Philadelphia to be home and so it is good to be back home and be in place where I don't have to apologize for my deep allegiance to the Phillies. I'm also happy to be here because it was DVG and its members that provided much of my professional development in the early years of my work in the field of philanthropy. Sani Fogel and then Dale Mitchell were always such wonderful guides and thoughtful dispensers of sage advice and counsel.

When Debra and Amy first contacted me about the annual meeting and told me it was to be held at the Chemical Heritage Foundation, they asked if I could come up with some kind of connection to Chemistry. Now, this is a tall order for me as I seem to recall barely managing a C or C+ in chemistry in high school and one of my worst and recurring anxiety nightmares is competing on Jeopardy and having the three of the six Double Jeopardy categories be German Philosophers, Biblical Quotations, and of course, The Periodic Table. But you know whatever Debra, and especially, Amy, wants, they get.

So, the title of this set of remarks is *"The Grantmaking Formula for the New Normal."*

But as I thought about it, there is actually a need to be considering a formula that works in the current environment and is a mixture of grantmaking tactics and strategies and how we behave and act as private funders. One could devote an entire speech to how things have changed since the economic correction in the fall of 2008. And while the Dow is above 14,000 and unemployment is below eight percent, there is still much to be concerned about. In New York City, we have two million -- that's two million -- out of 8.3 million residents at or below the federal poverty line of \$23,550 for a family of four. The unemployment rate in the Big Apple for black and Latino males ages 18-24 hovers between 40 and 50 percent. And just last month, the City of New York housed 50,000 homeless individuals and families in temporary shelter. The highest that figure has been in almost 20 years.

Of serious concern as well is the pullback of government support for various parts of the nonprofit sector. Four years of cuts at the federal, state and local level has taken a toll on the human services sector, education, the arts and elsewhere. For example, last year in New York State, we have seen the removal of overhead from contracts to nonprofits from the State Office of Family and Children's Services. So, a fully funded contract is now 90 percent of the cost to run a program. The nonprofit has to

identify and secure private support to cover the rest. Another issue in New York State is late payment of contracts. A "new normal" pay cycle is now 180 to 240 days. Imagine trying to manage cash flow with that kind of cycle. I understand that this has also happened here in Pennsylvania.

In parallel, we have not seen philanthropic support totally recover from 2008. Giving has been mostly flat. I imagine we might see some uptick in 2012 because of the influx of charitable gifts at year-end that many had made in anticipation of the charitable deduction being minimized.

Finally, we also lack an ability to convince politicians and policy makers of the worth of the sector and its amazing ability to deliver services and programs economically and efficiently. And this is happening at a time when our politics, especially at the national level, are unbelievably divisive. The broad debate is, as it has been, since the Reagan years, about the role of government in our lives and our communities. Currently, the GOP seems to think every person is a combination of Horatio Alger and Howard Rourke and can succeed with little help or support from any kind of government entity, and/or the private sector can and will provide a solution. The Democrats cling to New Deal/Great Society

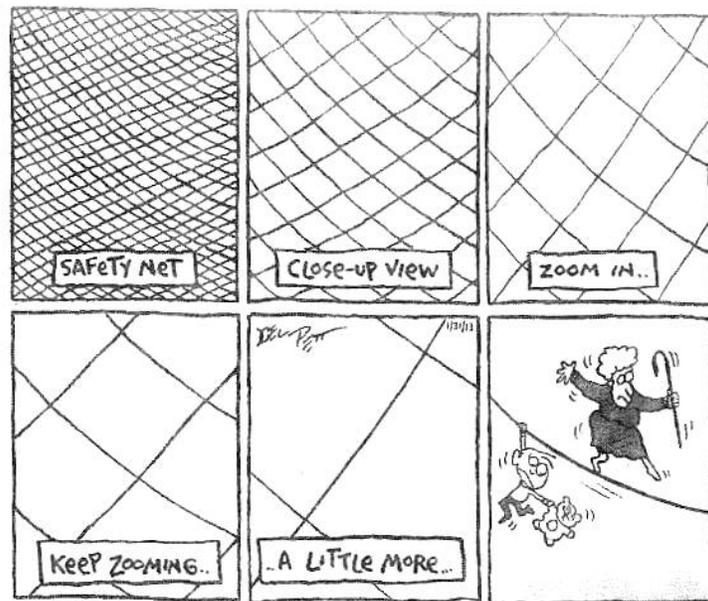
rhetoric with an occasional shout out to some kind of Third Way vehicle such as Social Impact Bonds -- an idea, by the way, that is premature and has stepped into a policy void and vacuum it might be unable to fill.

And, of course, the latest factor is sequestration. While some argue that sequestration has a "phony war" feel to it, people who know better, like Tim Delaney, CEO of the National Council of Nonprofits, would beg to differ. Tim noted on March 1st when

sequestration went into effect: "the work of nonprofits is going to become even more difficult from multiple compounding factors as many are hit by direct funding cuts to programs, hit again as state and local governments cut their funding further to make up for their own budgets being cut, and hit a third time

as people who are furloughed or laid off as part of sequestration turn to nonprofits for help in unprecedented numbers. Nonprofits are already severely depleted from doing so much more, for so many more, for so much longer, with so much less; they can no longer underwrite government's failures."

The point is that things have changed and, I believe, changed dramatically. In New York City, because of the pullback of government funding, it is unclear how we are, for example,



JOEL PETT, LEXINGTON (KY) HERALD-LEADER, CARTOONISTS & WRITERS SYNDICATE

going to pay for a social safety net or for that matter, sustain it. And as I said earlier, when you have two million of your fellow citizens at or below the poverty line, well, that is a big freakin' problem. And this is not only a New York City problem. According to the Census Bureau, we have 49 million Americans at or below the poverty line.

Who has the solutions to some of these thorny problems? I would argue that it's the nonprofits themselves. To, again, focus on the social safety net, most of the services provided are done so by or through nonprofits. The managers of these nonprofits know in a deep way what works and what does not work in caring for or reaching clients. They also know what it costs. I would fully trust a group of nonprofit leaders to be able to figure out how to economically and programmatically sustain a social safety net for the poor versus a set of lawmakers in Albany or Harrisburg or in a city hall.

But before that can happen, nonprofits need to be leaders and in a position of strength in order to be that effective advocate and power player. We need to shift the nonprofit mindset from one of supplicant or vendor to one of solution provider that is armed with knowledge and experience that few can match. We want and need our nonprofits at the decision making table, not on the menu of decision makers.

For that happen, I believe we in this room play an influential role. Our main job is to empower our grantees. We want them to be the best that they can be. So, in this new normal, what does that mean we should do? What is the right grantmaking formula to help enhance the ability of nonprofits to be fully effective and empowered to act?

I would argue that it is three things we need to do with our grantmaking and there are some things we need to contemplate regarding our behavior as grantmakers.

The three things we need to do with our grantmaking are, I believe, straightforward:

- Provide General Operating Support;
- Fund technical assistance; and
- Support Advocacy.

Why these three?

The most important funding we can provide right now is general operating support. I hope, by now, all of you in this room understand why. It is critical money that can be used creatively and with flexibility at a time when public and private streams of support are reduced, flat, held up or in flux. If you strongly believe in a nonprofit and its mission and work, what would prevent you from writing a check or wiring funds for general operating support? And yet, many foundations and corporate giving programs still hesitate to do this. Why? If we want leading nonprofits to succeed in their work, demonstrate their results, and be influential in their field, then strength and resilience is required. General operating support provides and fuels that strength and resilience.

America's first philanthropist and Philadelphia's own Benjamin Franklin said an ounce of prevention is worth a pound of cure. While I am sure old Ben was not thinking about technical assistance for nonprofits when he said it some 200+ years ago, he certainly could have been. Given the complexity of the New Normal, nonprofits cannot sit still – they cannot be static. They must be nimble and deploy

resources carefully and creatively. Modest sums invested in technical assistance can yield important changes in how nonprofit leaders think and execute. And again, many foundations and corporate giving programs do not fund technical assistance at levels they should or could. Why? If we want nonprofit managers and the boards that support them to operate at a high level of performance, then technical assistance is essential to enhancing or maintaining managerial and programmatic excellence.

Advocacy is the third component of an effective grantmaking strategy. As I noted a few minutes ago, the public policy landscape is difficult and divisive. As one influential Albany politician said to a gathering of New York foundations in 2010, "At the end of the day, many of the state budget battles are business versus labor or government versus labor. The Common Good is never at the table."

There is no question in the last four years, the Common Good has suffered. And while nonprofits will probably never have the influence of the private sector or labor unions, it is important that we have the ability and capacity to advocate in the halls of government -- especially when government resources at all levels are more limited than ever before. There has always been a deep reluctance by nonprofits and grantmakers to fully engage policymakers. Why? I have never understood it as the rules of engagement are so clear and organizations like the wonderful Alliance for Justice provide excellent counsel on how we can advocate appropriately and effectively. And the results can be dramatic. A major victory was achieved last year in New York City in the annual city budget debate when a coalition of human service nonprofits

successfully restored \$170 million in funding for youth programs. And yet, only a handful of private foundations provided support for the effort.

And that you might think it is hard to do these things, I would argue that it is not. The foundation I have the privilege of managing, The Clark Foundation, a fifth generation family foundation, is doing all three. Eighty percent of our funding to 92 grantees in New York City is for general operating support. We are, at \$2.38 million a year, one of the largest funders of technical assistance in the Metro New York region. And, we fund advocacy efforts. Once such effort is "Re-envisioning the New York City Workforce System," which is a group of ten leaders from the workforce development sector that has laid out a set of ten recommendations for New York's next Mayor who will take office in 2014. These recommendations have already been embraced by leading candidates like Christine Quinn, the current Speaker of the New York City Council.

The final set of ideas I want to share with you is how we as grantmakers need to change the way we work and act. I would like illustrate this by sharing three quotes and expanding a bit on each of them.

The first quote comes from Einstein who said, "Not everything that counts can be counted and not everything that can be counted counts." As a field we have become enamored or in some cases, obsessed, with metrics. Inputs, outputs, outcomes, and the ultimate, impact. It is critically important. Indeed, The Clark Foundation has underwritten the costs of over 75 percent of our grantees to be trained in outcomes management so that they can articulate outcomes, and this is really

important, in their own way and on their own terms. And even though we didn't describe it that way at the time, we were after these kind of results when we created the Philadelphia Cultural Leadership Program at The Pew Charitable Trusts in 1992-93.

But outcomes are not the only thing we should obsess about. My friend and mentor Bruce Sievers, the retired head of the Walter and Elise Haas Fund in San Francisco and now teaching at Stanford, would tell you that "in civil society, as in sports, the means matter as much as the ends, because in many ways the values embodied in the means are the ends." And even the strongest spokesperson for measurement in the field of philanthropy, Mario Morino, would tell you the means are important. In his seminal 2011 book, *Leap of Reason*, he admits, "I should have done more to understand soft achievements that may in fact be every bit as real and important as hard outcomes."

Einstein's, and I hope, my point is that while the quant is important, so too, is the qualitative. I do get a bit chagrined when I see colleagues claim utter devotion to the idea that entrepreneurial thinking, focus on numbers and technology will dramatically change the way nonprofits operate – if nonprofit managers can only get out of the mindset of their tried and true thinking that is stuck in somewhere in the 1970s. Those steeped in business thinking as a solution to everything sometimes forget that the business of nonprofits is people intensive. The last time I checked, it still takes a teacher to educate a child; it takes a mentor to guide a teenager from making wrong choices; it takes a social worker to inform and help a family make wise decisions about their lives; and you need a group of deeply talented musicians to create a

sound like The Philadelphia Orchestra. My final thought on this issue comes again from Mario Marino who notes in *Leap of Reason* that "the real challenge is that organizations cannot hope to manage to outcomes unless they have in place an engaged board; leadership with conviction; clarity of purpose; and a supportive performance culture." As Einstein and Sievers might note, that is the means.

My next quote comes from one of the more interesting athletes playing professional sports, R.A. Dickey. He is the noted knuckleball pitcher formerly with the New York Mets and now a member of the Toronto Blue Jays. On the last time he pitched in the 2012 season, a season in which he was given the Cy Young Award for being the best pitcher in the National League, he reflected, at the age of 37, on his most productive season as a ball player: "Growing up, you just want to compete, and then you have the weaponry to compete, you want to be really good, and then when you are really good, you want to be supernaturally good. For me, there's been this steady metamorphosis from just surviving, to being a craftsman, and then ultimately, the hope is to be an artist in what you do."

For the work that we do, we simply need to be more creative and nuanced thinkers and well, yes, artistic. And I believe there are more creative thinkers than we realize because it is not in our field's DNA to recognize people that way. But, with what our grantees face both now and in the coming years, they are going to need all of our help, support and yes, creativity, to succeed and to develop solutions to all of the vexing problems facing our society and our communities. Artists can think fast or slow, go bold or be muted, be bright and loud or subtle and soft, and the best of them capture the

Zeitgeist of our time and then suggest ways to move forward. Artists have freedom and can take risks. I would argue, especially given the fact that we are accountable only to ourselves and our boards, and not to voters or shareholders, that we have enormous freedom and capacity to take risk. Like an artist or a creative thinker, we should embrace this and utilize it to its fullest. Why you ask?

This leads me to my final quote. Alan Pifer was the President of the Carnegie Corporation of New York from 1967 to 1982. In 1984, he wrote the following passage: "If foundations in the years ahead are to make the great contributions to national and world betterment that can be rightfully expected of them because of their unobligated resources and unparalleled freedom, those who manage them will have to possess qualities of imagination, courage and leadership beyond anything we have yet seen. The three decades I have spent as an foundation officer have been an extraordinary era in world history -- a period characterized by almost constant turbulence and conflict as the world's societies have adjusted and readjusted to the impact of major economic, demographic and technological change. As I look ahead, I see little prospect of anything but more change, possibly at an even faster pace, and more instability, perhaps dwarfing that of recent decades. Of one thing, therefore, I can be sure: foundations will be needed as never before. Will they, I wonder, be up to the challenge?"

The late Mr. Pifer has hit the proverbial nail on the head. We will be up to the challenge? Will we allow less informed and less well

intentioned individuals and institutions from other sectors influence what our grantees and the nonprofit sector need to succeed and then, in turn, as Peter Drucker wrote, create positively changed human beings? The answer is no. No, because it is our responsibility, our main responsibility, to provide what is best for our grantees so that they can create sustained social, cultural or environmental change.

But that will only happen if we embrace the economic and political change and behave differently AND adopt a grantmaking formula for the New Normal that is pragmatic and generates strength and leadership within our grantees. If you like what I have suggested, terrific. At a minimum, have a discussion about whether you are doing all you can for your grantees and the issues to which your foundation or giving program are devoted.

In closing, I want to return to Mario Marino, as I really admire what he has done in philanthropy and how he thinks. He always asks in anything he does, "to what end?" Deceptively simple but so on target. And so I ask you of your work as donors and/or grantmakers in this New Normal we live and work in -- To what end?

Answer that and I expect you will be on your way to being a better grantmaker who will be more attuned to what your grantees truly need so that they can ensure that cities like New York and Philadelphia and its less fortunate citizens not only truly survive in the New Normal but thrive.

Thank you.

