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## **Catalytic Philanthropy**

By Mark R. Kramer

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homas Siebel does philanthropy differently from other donors. As the founder of the software company Siebel Systems Inc., he is one of a handful of philanthropists who have the resources to devote substantial time and money to charity. His approach and the results he has achieved, however, dramatically distinguish him from most of his peers.

In 2005, while spending time on his Montana ranch, Siebel became concerned about the rampant local use of methamphetamine, or “meth.” Meth is a highly addictive and physically destructive drug, and it is a particularly acute problem in rural America. In 2005, Montana had the fifth worst level of meth abuse among all U.S. states. Half of its inmates were imprisoned for meth-related crimes. The direct cost to the state was estimated at nearly \$300 million per year, and the cost in human lives and suffering was far greater.

Rather than writing a check to a local nonprofit, Siebel took the time to find out why people become addicted to meth. After learning that first-time users were typically teenagers who were unaware of meth’s risks, Siebel created the Meth Project to change teenage perceptions about the drug. He brought together experts and hired a major San Francisco advertising agency to develop a hard-hitting campaign that would reach 80 percent of Montana teens with at least three ads every week.

The ads were world-class: With production budgets of \$500,000 to \$1 million each, they were directed by leading Hollywood figures such as Alejandro González Iñárritu, director of the Academy Award-nominated film *Babel*. The ad campaign has won 43 awards in national and international advertising competitions.

The ads were gut-wrenching: Tested in focus groups to capture a teenager’s attention, they were far more brutal than anything the community had seen on television before. The 30-second spots begin with an ordinary teen whom kids can relate to, and end by showing the badly scarred and disfigured ravages that come from using meth. Teens are shown attacking and robbing their own families, prostituting themselves, or dying from an overdose. In one ad, a boy describes how his mother has always been there for him, while the screen shows him stealing her purse, hitting her, and kicking her away as she screams and desperately tries to grab his leg while he runs out the door.

By Mark R. Kramer | Illustration by Emiliano Ponzi

## Catalytic Philanthropy

Despite spending vast amounts of money and helping to create the world’s largest nonprofit sector, philanthropists have fallen far short of solving America’s most pressing problems. What the nation needs is “catalytic philanthropy”—a new approach that is already being practiced by some of the most innovative donors.



And the ads were pervasive: Because Montana is a small media market, Siebel's \$2 million annual advertising budget generated more than 45,000 television ads, 35,000 radio ads, and 1,000 billboards in the first two years. The Meth Project became the largest purchaser of advertising in the state. The results have been stunning. Between 2005 and 2007, meth use in Montana dropped 45 percent among teens and 72 percent among adults, while meth-related crimes fell 62 percent. The percentage of teenagers who were aware of meth's dangers increased from 25 percent to 93 percent, and teenagers have even begun to dissuade their friends from trying meth. Montana's ranking among U.S. states in meth abuse fell from fifth to 39th.

Siebel has continued the campaign, using teen focus groups to develop new advertising campaigns every nine to 12 months. He has convinced other funders to support the campaign and encouraged schools and community organizations to sponsor anti-meth events. Siebel has also personally lobbied Congress to combat the meth problem. Six other states have adopted the Meth Project's program.

Siebel's success in fighting meth abuse stands in stark contrast to the modest and often indiscernible results that most philanthropists have achieved, whether individually or collectively. Between 1980 and 2005, U.S. annual charitable giving in constant dollars grew by 255 percent and the number of nonprofits more than doubled to 1.3 million. Today, per capita giving in the United States is three times greater than any other country in the world. Yet, during this same 25-year time period, the United States dropped from second to 12th among the 30 countries that are members of the Organisation for Economic Co-Operation and Development (OECD) in basic measures of health, education, and economic opportunity.

To be sure, philanthropy cannot be blamed for the persistence of childhood poverty and failed schools that result from much larger political and economic forces. Without philanthropy, conditions would likely be even worse. Yet whatever benefits philanthropy may provide, it is not delivering the kind of social impact Siebel achieved. If philanthropy is to become an effective way of solving pressing social problems, donors must take a new approach.

Siebel is one of the exemplars of this new approach, but there are others. These exceptional donors—whether foundations, corporations, or individuals—do not write the largest checks, but they do act differently from other donors. They have expanded the toolkit of strategic philanthropy beyond even the most recent thinking of venture philanthropists and social entrepreneurs, creating a new approach to bringing about social change that I call “catalytic philanthropy.” Before turning to a discussion of the practices that distinguish this new form of philanthropy, it is important to understand why the conventional approach so rarely produces measurable impact.

### LIMITATIONS OF TRADITIONAL PHILANTHROPY

For most donors, philanthropy is about deciding which nonprofits to support and how much money to give them. These donors effectively delegate to nonprofits all responsibility for devising and

implementing solutions to social problems. Despite the sincere dedication and best efforts of those who work in the nonprofit sector, there is little reason to assume that they have the ability to solve society's large-scale problems.

The overwhelming majority of the 1.3 million U.S. nonprofits are extremely small: 90 percent of their annual budgets are under \$500,000 and only 1 percent have budgets greater than \$10 million. Each nonprofit is capable of helping hundreds or even thousands of people in need, and many of them do so in creative and highly effective ways. Despite their often-heroic efforts, these nonprofits face severe limitations.

Each nonprofit functions alone, pursuing the strategies that it deems best, lacking the infrastructure to learn from one another's best practices, the clout to influence government, or the scale to achieve national impact. A majority of the very largest nonprofits that might have the resources to effect national change are hospitals, universities, and cultural organizations that focus primarily on their own institutional sustainability. Collaboration throughout the sector is almost impossible, as each nonprofit competes for funding by trying to persuade donors that its approach is better than that of any other organization addressing the same issue. Very few systematically track their own impact.

However generous the donors or hardworking the nonprofit staff, there is no assurance—nor even any likelihood—that supporting the underfunded, non-collaborative, and unaccountable approaches of the countless small nonprofits struggling to tackle an issue will actually lead to workable solutions for large-scale social problems. The contributions of conventional donors and the good work of effective nonprofits may temporarily improve matters at a particular place and time, but they are unlikely to create the lasting reform that society so urgently requires.

### FOUR PRACTICES OF CATALYTIC PHILANTHROPY

What is needed is a new approach to philanthropy, one that catalyzes the kind of social change exemplified by Siebel's Meth Project. Over the past decade, the consulting firm that I cofounded, FSG Social Impact Advisors, has studied many examples of this new approach to social change. We have distilled what makes catalytic philanthropists so effective into four distinct practices: They have the ambition to change the world and the courage to accept responsibility for achieving the results they seek; they engage others in a compelling campaign, empowering stakeholders and creating the conditions for collaboration and innovation; they use all of the tools that are available to create change, including unconventional ones from outside the nonprofit sector; and they create actionable knowledge to improve their own effectiveness and to influence the behavior of others.

Each of these practices stands in distinct contrast to the practices that most donors, foundations, and corporations follow today. (See “Types of Philanthropy” on page 33.) To understand why these four practices are important, each will be considered in turn.

#### 1. Take Responsibility for Achieving Results

Two years ago, the Bill & Melinda Gates Foundation asked FSG to explore why some donors are more effective than others. We interviewed several dozen wealthy donors of different ages and

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# Types of Philanthropy

	CONVENTIONAL PHILANTHROPY	VENTURE PHILANTHROPY	CATALYTIC PHILANTHROPY
<b>What is the key question?</b>	Which organizations should I support and how much money should I give them?	How can I help to scale up effective nonprofit organizations?	How can I catalyze a campaign that achieves measurable impact?
<b>Who is responsible for success?</b>	Nonprofits	Nonprofits	Funders
<b>What gets funded?</b>	Individual nonprofits	Capacity building at individual nonprofits	Multi-sector campaigns
<b>What tools are used?</b>	Nonprofit programs	Nonprofit programs	All possible tools and donor resources
<b>How is information used?</b>	To compare grant requests	To increase organizational effectiveness	To support the campaign and motivate change

backgrounds, all of whom had been identified by their peers as highly effective, and we found a surprisingly common theme. When these donors first began giving away money, they followed conventional philanthropic practice, responding to those who asked them for funds with little awareness of what impact they actually achieved. They gave large sums to many different organizations and were viewed as prominent philanthropists in their communities, but had not yet distinguished themselves as highly effective donors.

After some time, these donors became involved in an issue of great personal significance: A donor's child was diagnosed with a rare disease; a wilderness preserve a donor hiked in as a child was about to be sold to a developer; or a donor went on a trip to a developing country and was exposed firsthand to a level of poverty and disease that she had never imagined. The urgency of the cause and the intensity of their commitment compelled each of these donors to take an active role in solving the problem.

These newly energized donors became deeply knowledgeable about the issue and actively recruited collaborators, sometimes even creating a new nonprofit to further the cause. The donors stopped thinking about which organizations to support, and started to think about how to solve a specific problem, using every skill, connection, and resource they possessed. The donors formulated clear and practical goals that enabled them to identify the steps needed to succeed. Above all, the donors took responsibility for finding solutions to the problem instead of waiting for the nonprofit sector to approach them with a proposal. Like Siebel's campaign against meth abuse, the difference in impact was remarkable.

Consider the example of Bob Pattillo, an Atlanta real estate developer who had a small family foundation, the Rockdale Foundation. On a church mission to Cuba, he encountered impoverished families who had benefited from microfinance and wondered why so little microlending was taking place in the Middle East. (In 1999, there were only 40,000 Arab microfinance borrowers, compared to millions of borrowers in Asia and Latin America.) Instead of waiting for a nonprofit to approach him, or asking "Whom should we give money to?" Pattillo focused on creating a solution by asking "What infrastructure would need to be in place for microfinance to flourish in Arab regions?"

The answer to this question led Pattillo and the Rockdale Foundation to take a number of steps. The body of literature about microfinance had never been translated into Arabic, so they hired translators. There had never been an international conference on Arab microfinance, so they organized one. The lone coordinating organization in the region had a single staff member, little revenue, and no business plan, so they nurtured its growth and development. The major funders of global microfinance had overlooked the Middle East, so Pattillo commissioned research about the need and opportunity, then personally brought it to their attention. In short, Pattillo pieced together the disparate elements needed to catalyze the change he sought.

The results were dramatic: In seven years, with an average annual expenditure of only \$400,000, the number of Arab microfinance borrowers grew from 40,000 to 3 million. More than 50 new microfinance institutions began serving the region, supported by 18 major foundations. The leading global microfinance investors contributed an influx of debt capital, and the coordinating organization flourished. The Rockdale Foundation more than met its goal of increasing microlending in Arab regions.

Our research suggests that if donors want to solve a problem, they must decide to do so themselves. This doesn't mean that they need to create their own nonprofit or that they should ignore the efforts of others. It does mean that funders have a powerful role to play that goes beyond merely supporting existing nonprofits. Private donors, foundations, and corporations have the clout, connections, and capacity to make things happen in a way that most nonprofits do not. By becoming directly involved and taking personal responsibility for their results, these donors can leverage their personal and professional relationships, initiate public-private partnerships, import projects that have proved successful elsewhere, create new business models, influence government, draw public attention to an issue, coordinate the activities of different nonprofits, and attract fellow funders from around the globe. All of these powerful means for social change are left behind when donors confine themselves to simply writing checks.

Catalytic philanthropists, however, must be as cautious as they are bold. Considerable havoc has been wrought, and billions of dollars wasted, by donors whose success in business or other fields has convinced them that they can single-handedly solve a social problem that no one else has solved before. Philanthropists cannot catalyze change by acting alone or imposing a solution, convinced that they have the answer before they begin. Instead, they must listen to and work with others, enabling stakeholders to develop their own solutions.

## 2. Mobilize a Campaign for Change

In "Leading Boldly," an article that Ron Heifetz, John Kania, and I wrote for the winter 2004 issue of the *Stanford Social Innovation Review*, we suggested that many of the problems foundations tackle are adaptive in nature: The people with the problem have to become engaged in solving it for themselves. Teenagers, for example, need

to dissuade other teenagers from using meth. In other cases, effective solutions may already be known but cannot be externally imposed on the existing system. It is well known, for example, that better qualified teachers produce better educated students, but the systemic changes needed to act on that simple solution are mind-bogglingly complex. The obstacle isn't that no one knows any answers, but rather that the uncoordinated actions, narrow constraints, and conflicting incentives of different stakeholders and different sectors of society perpetuate the status quo.

Catalytic philanthropy cuts through these divisions by stimulating cross-sector collaborations and mobilizing stakeholders to create shared solutions. Building alliances that create the conditions for a solution to emerge and take hold is a very different pursuit from the usual grantmaking process of trying to direct funds to the one organization that offers the most appealing approach. Systemic reform requires a relentless and unending campaign that galvanizes the attention of the many stakeholders involved and unifies their efforts around the pursuit of a common goal.

Consider the example of Strive, a nonprofit founded in late 2006 by Nancy Zimpher, then president of the University of Cincinnati. Zimpher believed that her university could not succeed in its mission unless the entering students, drawn largely from the local school systems, were adequately prepared. Recognizing that educational success was the result of a long and often fragmented process that begins with preschool and ends with career placement, Zimpher approached the KnowledgeWorks Foundation and the Greater Cincinnati Foundation to help form a community-wide initiative to reform the entire continuum. More than 300 organizations and institutions in the Greater Cincinnati area now participate in Strive, including school districts, universities, private and corporate funders, civic leaders, and nonprofits with combined budgets of \$7 billion.

The organizations are grouped into 15 networks, each of which focuses on a single educational component, such as preschool education or college readiness. Each network is developing a common set of goals and progress indicators to be tracked throughout the region. They employ only evidence-based solutions that have demonstrated progress on the agreed measures. The leaders of the organizations in each network meet every two weeks for two hours to discuss their progress. Participation is voluntary and does not include any additional funding. Instead, organizations learn from each other, reach agreement on performance standards, and find ways to collaborate that increase the effectiveness of all participating organizations. Many changes are simple—letting teachers know which of their students are being tutored, and aligning classroom and after-school curricula—but these small improvements throughout the region collectively improve the effectiveness of the entire educational system. No single intervention attacks the root cause of educational failure. Instead, the entire system is gradually becoming more coordinated, informed, and effective. After only two years, Strive is already reporting positive progress on a majority of its measures of educational success.

Mobilizing and coordinating stakeholders is messier and slower than funding a compelling grant request from a single organization. Systemic change depends on a sustained campaign to increase the capacity and coordination of an entire field, together with greater

public awareness and, often, stronger government policies. Catalytic philanthropists have the wherewithal to heighten awareness, raise expectations, and coordinate the many disparate efforts of other funders, nonprofits, corporations, and governments.

### 3. Use All Available Tools

The prominence of the U.S. nonprofit sector and the tax deductibility of donations have lulled people into thinking that IRS-sanctioned philanthropy is the only way to solve social problems. Donors have the freedom, however, to complement traditional grantmaking with a wide array of other tools from outside the nonprofit sector, including many that can influence social, economic, and political forces in ways that traditional charitable giving cannot.

Siebel employed an unconventional tool by hiring world-class advertising talent and purchasing prime-time advertising for his anti-meth campaign, rather than accepting the less effective tools of donated public service announcements. Other catalytic philanthropists have used a variety of unconventional tools for social change, including corporate resources, investment capital, advocacy, litigation, and even lobbying, as demonstrated in the following examples.

**Corporate Resources.** General Electric Co. (GE) has helped low-performing high schools located near major GE facilities, committing \$150 million over five years to five urban school districts to improve math and science education. In addition to cash contributions, GE and its employees have provided intensive tutoring, mentoring, summer employment opportunities, scholarships, and management advice to school administrators, and have donated technology. Within four years, 100,000 students in these school systems improved their standardized math test scores by an average of 30 percent.

**Investment Capital.** The F.B. Heron Foundation has invested more than 25 percent of its endowment in investments that further the foundation's mission. One of these investments is a subordinated loan to strengthen the balance sheet of the Minneapolis-based Community Reinvestment Fund (CRF). CRF has purchased more than 2,100 loans worth almost \$1 billion from community development corporations and other community development lenders whose portfolios are not large enough to attract institutional investors directly. Since its inception, CRF has provided liquidity for loans that have generated or retained more than 35,000 jobs, financed almost 600 women or minority-owned businesses, and built more than 16,000 housing units.

**Advocacy and Litigation.** The William and Flora Hewlett Foundation has supported grantees that use advocacy and litigation to profoundly influence educational policy in California. The 2004 settlement of a lawsuit against the state of California brought by the ACLU and Public Advocates, funded in part by the Hewlett Foundation, led to \$1 billion for school repairs, instructional materials, and extra support to low-performing schools. A separate lawsuit in 2005 brought by Public Advocates and Californians for Justice, also funded in part by the Hewlett Foundation, required that the state revoke the credentials of more than 4,000 underprepared teachers and provide them with additional training before they could be considered "highly qualified" under the No Child Left Behind Act. Other Hewlett grantees worked to raise public awareness and to educate policymakers through bipartisan legislative seminars on options for education

reform, and tours that brought legislators and their staff into the schools to see conditions firsthand. These efforts helped generate a \$1 billion bond set-aside for facilities improvements in overcrowded schools, created new longitudinal data systems to track student and teacher performance, and required the public disclosure of teacher salaries that unmasked major inequities within school districts, the first such transparency requirement in the nation.

**Lobbying.** Several years ago, the Pew Charitable Trusts converted from a private foundation to a public charity, enabling the foundation to engage in lobbying. The Pew Campaign for Fuel Efficiency, for example, was instrumental in getting Congress to pass a bill in December 2007 that raised average fuel economy standards for U.S. automobiles for the first time in 32 years. Pew coordinated the work of a diverse coalition of interest groups, gathered independent research findings, created high-quality polling data, and marshaled testimony from Fortune 100 CEOs and military leaders. In the three weeks leading up to the Senate vote, the campaign placed 85 editorials and paid advertisements in critical congressional districts. By 2020, when the full impact of this legislation is felt, it is projected to be the equivalent of taking 28 million cars off the road, saving \$23 billion in consumer fuel costs and 190 million metric tons of greenhouse gas emissions each year.

#### 4. Create Actionable Knowledge

Most donors rely on their grant applicants and recipients to provide them with information about the social problems the nonprofit is tackling, focusing their inquiries narrowly on the program to be funded without researching the issue more broadly. Catalytic philanthropists, by contrast, gather knowledge about the problem they are tackling and use this knowledge to inform their own actions and motivate the actions of others. Making knowledge actionable requires more than just gathering and reporting data. The information must also carry emotional appeal to capture people's attention and practical recommendations that can inspire them to action.

GreatSchools.net, for example, is a Web-based reporting tool that makes available public school performance data (including rankings by parents) on a consistent basis throughout the country. Funded by the Gates Foundation, the Walton Family Foundation, and the Robertson Foundation, the site receives 35 million unique visitors each year, an estimated one-third of U.S. families. Similar information, compiled by Standard & Poor's and funded by the Gates Foundation, is available at the Web sites SchoolMatters.com and SchoolDataDirect.org. Making reliable school performance data publicly available will influence the behavior of many stakeholders and help create the conditions for solutions to arise.

Actionable knowledge can also have an impact on government spending priorities. In 2004, Pew commissioned a study showing that extending preschool to the 4 million children under age 5 living below the poverty line would produce a net benefit to the economy of more than \$51 billion—a \$16 return from higher earnings and fewer welfare payments for every dollar spent. This study enabled advocates to make a compelling case for increased state spending. Between 2005 and 2008 total state spending in the United States on prekindergarten programs grew by 66 percent from \$2.9 billion to \$4.8 billion; seven states have pledged universal preschool for all

4-year-olds, and three other states have promised preschool for all children in low-income families.

The Annie E. Casey Foundation used data in a different way. The foundation hired local residents to gather and report data about their own communities. This increased civic engagement and empowered community members to hold local nonprofit service providers and government agencies accountable for their performance. In Des Moines, Iowa, for example, the residents used the data they had collected to recover \$2.5 million from four predatory lenders and to lobby successfully for passage of a statewide lending disclosure law.

Actionable knowledge is not limited to compiling and analyzing data. Jeff Skoll, first president of eBay Inc. and founder of the Skoll Foundation, created a for-profit film production company, Participant Media, in 2004 to produce major movies that could inform and engage the public on social issues. With projects such as *Syriana*, *An Inconvenient Truth*, and *Good Night, and Good Luck*—Participant has been a commercial and artistic success, producing enviable box office revenues and multiple Academy Award nominations. Participant partners with nonprofits to create social action campaigns for each film that it releases, such as benefit screenings and educational curricula for schools. The social action campaign for *An Inconvenient Truth*, one of the highest grossing documentaries of all time, led directly to more than 106,000 tons of CO<sub>2</sub> offsets, nine countries incorporating the film into their curriculum for high school students, and four bills on climate change introduced in Congress.

#### MOVING FORWARD

Social change is a messy process in which the willpower of a determined and influential person can often tip the balance. Donors who are serious about solving social problems must take a catalytic role, mounting a campaign and knitting together the pieces of a solution in ways that the fragmented nonprofit sector cannot do for itself.

This is not to suggest that catalytic philanthropy is appropriate for all donors, or that other types of philanthropic engagement are ineffective. Most individual donors have neither the time nor the resources to do more than contribute to deserving organizations. Conventional philanthropy serves an essential function in supporting major nonprofit institutions, enriching many lives, and providing assistance to countless individuals in need. Venture philanthropy and social entrepreneurship also play important roles by helping effective organizations and talented leaders expand the scale of their impact. The variety in types of philanthropy is one of the reasons for the nonprofit sector's vitality, and society would be dramatically worse off were it not for the billions of dollars in annual charitable contributions from conventional donors.

We should not pretend, however, that conventional contributions will change the status quo. Instead, the much smaller set of donors who have the desire and opportunity to achieve change—whether professionals at foundations and corporations or individual philanthropists with the time and resources to become personally involved—must step forward to become catalytic philanthropists. If they do, they will begin to see measurable impact from their efforts and the potential to change social conditions meaningfully. Philanthropy is indeed a powerful tool for social progress, but only when donors make it so. ■