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ABSTRACT

This paper explores possible contributions of the philanthropic community to education, describing the basics of grantmaking foundations and the growing positive climate for educational support. The paper describes different types of foundations, including community, corporate, and family foundations. It is noted that there are 54,000 grantmaking foundations in the United States, an increase from 22,000 in 20 years. Education receives almost one-fourth of all foundation grant dollars. Social investing or venture philanthropy, whereby investments are made in people and the investor forms a partnership with the recipient in terms of hands-on participation that accompanies the grant dollars, is a hotly debated model for foundations. The paper describes the Social Venture Partners in Seattle as an example of venture philanthropy involving education and child welfare projects. One of the problems identified with this approach is that venture philanthropists often withdraw quickly if results are not forthcoming. Nevertheless, they are influencing mainline foundations, such as the Ford and Rockefeller foundations. It is also noted that the Council on Foundations educates its members about new approaches to organized philanthropy and reports that education and children are considered safe areas to fund. The paper concludes by asserting that the U.S. economy will shortly experience the greatest intergenerational transfer of wealth in history, estimated at $46 to $125 trillion, and that the largest question is what "baby boomers" will do with this money inherited from the World War II generation. (KB)

Philanthropy: Family Education's Next-Best Friend

by Dorothy S. Ridings, President and CEO
Council on Foundations
at the "Born to Learn" International Conference
of the Parents as Teachers National Center
St. Louis, Missouri
July 11, 2000

For me, as I assume for most in this room, education and the parental role in every facet of my education was a "given" when I was growing up. My parents were college graduates and both believed in life-long learning for themselves and their four children. My mother had advanced degrees and was a teacher of Romance Languages. Books and magazines were staples in our home. The Girl Scout badge for reading was the easiest I ever earned – and my mother, who was our troop leader, involved the other mothers in seeing that Troop 132 was 100 percent in achieving that badge. In other words, education and literacy, with strong parental involvement, were central to our lives.

That, of course, was another era: the years immediately following World War II, when parental involvement in so many things was more or less assumed, and frankly was easier. I didn't think about it much until my own children came along, and even later when as a newspaper publisher I realized that the future of the business I loved was threatened by an alarming increase in illiteracy and school dropout rates, and a corresponding decrease in parental involvement in everything from PTAs to homework oversight.

I'm not in the newspaper business any more, but I still consider the education challenge a huge one for that industry. More importantly, the education challenge is a huge one for our democratic society. Your notion of the family unit as an important response to that challenge is farsighted and appealing – and I'm here to tell you that philanthropy in the United States is the next-best friend you have in effectively addressing your needs to make it happen.

I say "next-best" because I do believe, and have always believed, that parental involvement in education is the "best" friend you have. I know I'm preaching to the choir here. I also recognize the enormous obstacles that confront so many parents today in affirming their central role toward forming a successful child, which means an educated child.

You will be discussing that and related issues during this conference, I'm sure. What I'd like to contribute is an understanding of the partnering role that is being played by philanthropy, and the even stronger partnering role that is possible in today's philanthropic climate.

I'm not going to assume that everyone here knows a great deal about the structure of philanthropy in this country, so I'll begin with some basics. First of all, "philanthropy" is an odd word. It sounds effete, and it can make people's eyes glaze over. The dictionary defines the word as "active effort to promote human welfare," which isn't bad. "Charitable giving" is another definition.

But the philanthropy I'm talking about today goes far beyond Lady Bountiful with her food basket, or the legendary barn-raisings and quilting bees of American history. Americans by tradition and instinct are considered generous, caring people, and I know that to be true. Some 77 percent of all giving in this country comes from individuals.

What I want to focus on, however, might be better described as organized philanthropy. My job these days is the presidency of the Council on Foundations, which serves the grantmaking community primarily in this country but also those foundations abroad that have grantmaking interests that intersect those of our domestic members. Our members consist of some 1,900 grantmaking foundations and corporate grantmaking programs, and they hold about two-thirds of the assets of all foundations in the U.S.

There are many kinds of grantmaking foundations – and let me stress that qualifier, "grantmaking." What we aren't is the foundation attached to a hospital, or university, or specific charity, which raises money directly and uniquely for that hospital, university or charity. Yes, they do make grants of a sort, but only to that one institution or cause.

Our members typically make grants to multiple nonprofit groups, and most of our members are endowed and do not go out and raise money as do the hospital and university foundations. The exception is the community foundation, which does indeed have fundraising in the community as a central part of its operations. There are some 550 community foundations in the United States, and they are growing in size and importance as part of the American philanthropic stream. Community foundations are public charities under our tax laws, as are other so-called "public foundations" that are not community-based but do receive significant public support as well as governmental support, and which often are focused on one area such as education.

Best known to most people are the private, independent foundations that carry names like Ford, Rockefeller, Mellon and Kellogg. These are the giants of our field in terms of endowment size, and most have existed for the better part of this century. Their sisters are the private, family foundations that are being formed these days at warp speed and that account for the largest number of foundations in the U.S., though most of them are small in endowment size. A family foundation is identified by the involvement of the founder and his or her family members in the governance, and sometimes the daily operations, of the foundation, and most carry the family name. Some of the larger foundations such as Packard and Lilly still consider themselves family foundations, but most of the truly large private foundations are akin to Ford and Rockefeller which started out with family involvement but over the years have become independent of family concerns.

Corporate foundations are another part of our membership, and these are foundations that are related to companies and are endowed by them, and sometimes receive annual additions to the endowment of a percentage of operating profits of the company. Examples of these are AT&T Foundation and Toyota Foundation. There also are corporate giving programs, which are not endowed but use budgeted amounts from their companies to make grants to nonprofits. Of our corporate members, about a third are foundations, a third are giving programs and a third are combinations of the two.

Yet another form is the operating foundation, which typically does not make grants but operates its own programs. Examples of this type among our members are the Howard Hughes Medical Institute and the J. Paul Getty Trust.

Although foundations themselves are not new – dating back hundreds of years, often related to religious institutions or governments – the modern private and secular philanthropic foundation is predominantly an American phenomenon. The earliest ones in this country grew up after the American revolution, and they became a distinct presence about a century ago with the formation of the first large private fortunes in the United States, fortunes largely made in U.S. industry such as oil and steel. John D. Rockefeller is the prototype, and even today people debate whether his charity was driven by guilt from his practices as a "robber baron" or by a real desire to give back some of his wealth to the greater society. Interestingly, we heard some of the same debate about motives connected to the gift several years ago of $1 billion by Ted Turner to establish the United Nations Foundation, and the even more recent gift of $17 billion by Bill Gates to his two foundations, which he merged into one.

(Let me note I've settled that one for myself. I know what really drives the Turner and Gates interests, and I can vouch that these are people and institutions that care deeply about the issues they promote. They know exactly what they are funding, and why.)

Today there are some 54,000 grantmaking foundations in the United States, up from 22,000 just 20 years ago, and many of them are too small to be captured in the data of the Foundation Center, our sister organization which is the primary researcher in the field. The small family foundation is typically unstaffed, is operated out of a lawyer's or banker's office, and serves as a husband and wife's charitable mechanism.

But a growing number of foundations are really large. Some 50 of our own members, including Gates and Turner, currently have assets of $1 billion or more, including some community foundations, which are locally-based endowment funds that have multiple donors and multiple interests but a common mission of community self-help. Due to an incredibly healthy economy and stock market, the beginnings of the inheritance by baby-boomers of trillions of dollars created after World War II, and a primarily favorable tax code, the foundation world in the United States is booming.

Let's put this into the broader context. Foundation funding makes up only about 10 percent of all charitable contributions in this country, with individual giving accounting for more than 75 percent as I mentioned earlier. And it's because of individual giving that religion garners close to half of all donated dollars.

But the largest area of <u>foundation</u> funding, which I am here to talk about, is education, and it receives almost one-fourth of all grant dollars. "Education" is a broad category, but foundation grant dollars going to the gamut of educational interests are in the billions, and there's clear expectation that the amount will continue to increase. This is not significantly impacted by the huge, multi-million-dollar gifts making headlines that go to capital campaigns of colleges and universities. Those gifts are predominantly from individuals and not foundations. Instead, more education grants from foundations are going toward education reform projects. And if you go beyond education to include the second largest are of foundation funding – health and welfare – and all other programmatic areas as they all pertain to funding for children, you approach almost one-half of all foundation funding.

We're talking about substantial dollars here; giving by foundations of all types, including corporate foundations and giving programs, was $27 billion in 1998, and although the 1999 figures aren't firm yet, that number will be significantly higher. For four years in a row, foundation grants have increased by a double-digit percentage –22 percent in 1998, for example – and the year-over-year increases have both outstripped inflation and increased faster every year.

So, more dollars are available. Just as telling as that growth are new approaches taking a prominent role in foundation funding that bode well for the future funding of programs aimed at the betterment of our children's lives. Hotly debated in the foundation world these days is a concept called "social investing" or "venture philanthropy," which is largely credited with getting its start from the new personal fortunes of those in the high-tech industry on the U.S. west coast.

It's a concept built loosely on the venture capital model, in which investments are made in people even more than in programs, and in which the investor forms a partnership with the recipient in terms of hands-on participation that accompanies the grant dollars. Results are expected, and outcomes measured.

Paul Brainerd, who made his fortune in desktop publishing, is an often-touted example of this concept. He has a foundation himself, the Brainerd Foundation, but he also founded Social Venture Partners in Seattle, gathering some 100 friends together who each contributed into a foundation "pool" to fund education and child welfare projects.

"We use the venture capital model as a way to invest in the community," he told *The New York Times*. "People give more than money. They give time and expertise. It's more of a partnership with the nonprofits we're going to serve. Like venture capitalists, we're willing to take more risks and eventually hope to have a portfolio of community investments, both high and low risk."

Social Venture Partners has now expanded into other communities, and the "venture philanthropy" model is spreading in other ways as well. I'm aware of a program in one city where funding for a literacy project is being accompanied by participation on the board of directors of the grantee as well as volunteering in the schools as literacy tutors for those who contributed the dollars. Typical "social venture" philanthropists are "baby boomers" or younger, whose dollars came from the high tech industry, who believe in "hands on" involvement in the issues they choose for their charitable contributions.

As I mentioned before, this is a controversial form of philanthropy, stemming largely from the fact that venture philanthropists are known to invest heavily in new areas but to withdraw quickly if results aren't forthcoming, as well as the fact that many people think "hands on" is a bad philosophy for foundations. The critics say they work hard to identify promising projects proposed by creative people but then need to stand back and let those people carry out their objectives without interference from the funder.

Still, it's having an impact even on mainline foundations. Some of the oldest names in the foundation world, like Ford and Rockefeller, were portrayed in that same *New York Times* article as building alliances with both the public and private sectors to "invest" in social-action projects.

Other new models in organized philanthropy are emerging as well, and they will have dramatic impact on how foundations do their business, and on how grantees can attract funders. It's a time of massive change, as well as massive growth, in the foundation world.

What does this mean to you, the laborers in the vineyard of parental involvement in the lives of our nation's children?

I suggest these are encouraging signs for you. I hasten to add that the Council on Foundations, representing foundations and corporate giving programs that fund everything from the arts to zoology, does not make judgments on what any foundation should fund. Our goal is to help them do whatever they do better.

But we do see the trends and educate our members about new approaches to organized philanthropy. And my vision for all of the issues involving the gamut of those affecting children, including various facets of parental involvement, is one of increasing and sustained interest in the foundation world.

I'll be blunt. Some of that stems from the fact that education and children can be "safe" areas to fund, drawing fewer critics than, say, environmental protection or new American art. And funding that involves family units can be seen as a safe harbor within that safety zone. Surely, too, in today's world where "family values" have now transcended partisan politics and are being embraced by the mainstream, your own interests are perfectly positioned.

But there are other major factors in the future I see. I see an even greater awareness by foundations of the new possibilities in funding for children, with an emphasis on education, and an even greater awareness of the stark fact that an uneducated nation, and a nation without strong family underpinning, is a declining nation. Corporate foundations and giving programs are especially aware of this, from their vantage point connected to companies as employers. I see family foundations becoming even more interested as well, and family foundations are the fastest-growing segment of organized philanthropy in terms of number of new foundations created. Donor-advised funds in community foundations, which are the fastest-growing segment in terms of assets, are another excellent place to look for increased funding for such programs.

The key is the living donor at these family foundations and at the donor-advised funds in community foundations. The stunning growth in the number of new foundations and donor-advised funds is occasioned by new wealth being realized by people who are still alive – and who decide not to wait until they die to give their money away.

The smart scavenger for foundation dollars knows that, and knows where to look to keep up with these trends. I hope that you in this room are skilled in electronic literacy. Become familiar with the Web sites of such organizations as the Council on Foundations (www.cof.org) and the Foundation Center (fdncenter.org), and subscribe to the free Internet newsletters on philanthropy. All of these have links to other good sources of information on foundation funding. You might subscribe to publications like the *Chronicle of Philanthropy* (which isn't free). Many public libraries have philanthropy sections, and several hundred of them house cooperating collections of the Foundation Center. The electronic offerings of the Foundation Center are invaluable to a grantseeker; you can enter key words and find out who is funding what, and where.

Let me conclude with what may be the best news you could possibly hear on this topic of money. The U. S. economy is beginning to experience the greatest intergenerational transfer of wealth in history, and the amount of money we are talking about is in the double-digit – and some suggest the triple-digit – trillions of dollars. I repeat, we're talking about "trillions," which is even more money than Bill Gates and Ted Turner have combined.

This unknown quantity of money, originally estimated at $10 to $12 trillion but now estimated at between $46 and $125 trillion (who knows?), is money that is being transferred from the World War II generation to their Baby Boomer children. It's an inheritance of the money made in the days following the war that have grown into hundreds of thousands of considerable fortunes, held by those who never considered themselves as people of wealth.

The big question is what the Boomers will do with this money they are inheriting. There is already some evidence that philanthropy is coming in for a healthy share, for the Boomers, contrary to their earlier depictions, are turning out to be charity-minded after all. This transfer of wealth began in the 1990s and is expected to continue for the next 20 years or so, but early signs bode well for charitable causes as recipients of some of this wealth.

The foundation world is growing enormously already, as I've pointed out, but we expect an even greater surge of growth as this generational wealth transfer takes hold. You are wise to become more conversant with the foundation world, as well as with individual givers of new means, as the transfer takes place.

Philanthropist Andrew Carnegie, who is perhaps best known for financing the construction of about 3,000 public libraries in exchange for a promise that the local communities would stock and maintain them, said toward the end of his life that "He who dies rich dies disgraced." He did not die disgraced.

It is significant to me that I have heard this quotation spoken more than a few times recently, by those who are among what I would call the "new wealth" portion of philanthropy.

That bodes well for the promising scenario I have laid out for you today, and I celebrate with you as we remind the new philanthropists of Carnegie's wisdom.

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