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COVER STORY

## The New Face of Philanthropy

**Today's donors are more ambitious, get more involved, and demand results**

*"Rich men should be thankful for one inestimable boon. They have it in their power during their lives to busy themselves in organizing benefactions from which the masses of their fellows will derive lasting advantage, and thus dignify their own lives."*

When industrialist Andrew Carnegie wrote those words in 1889, he believed that the rich had a moral obligation to give away their fortunes. The legendary steel tycoon asserted that all personal wealth beyond a family's needs should be regarded as a trust fund for the benefit of the community. Further, he believed that the money should be given during the benefactor's lifetime to ensure that it accomplished the maximum good.

Carnegie would surely have given an approving nod to the latest generation of philanthropists. Not since the Gilded Age, when harsh overlords such as Carnegie and John D. Rockefeller Sr. put millions of their dollars toward good works, has philanthropy been as bold and ambitious. The spectacular late-1990s runup in the stock market created a generation of newly super-rich executives and entrepreneurs worth hundreds of millions, if not billions, of dollars. Even after the sharp decline in the market, the ranks of the very wealthy have never been stronger--and many are now working almost as hard at giving their fortunes away as they did at amassing them. Since 1990, charitable donations by individuals have grown by half, from \$110 billion to \$164 billion in 2001. By harking back to the individualistic style of giving practiced by Carnegie, these donors are ushering in a new era of philanthropy.

This new philanthropy displays an impatient disdain for the cautious and unimaginative check-writing that dominated charitable giving for decades. So what does it look like?

-- It's more ambitious: Today's philanthropists are tackling giant issues, from remaking American education to curing cancer.

-- It's more strategic: Donors are taking the same systematic approach they used to compete in business, laying out detailed plans that get at the heart of systemic problems, not just symptoms.

-- It's more global: Just as business doesn't stop at national borders, neither does charitable giving. Donors from William H. Gates III to George Soros have sweeping international agendas.

-- It demands results: The new philanthropists attach a lot of strings. Recipients are often required to

meet milestone goals, to invite foundation members onto their boards, and to produce measurable results--or risk losing their funding.

All of this requires a new level of involvement by donors. More than just ribbon-cutters, the new philanthropists are actively engaged in projects that become passions. John R. Alm is one example. The president of Coca-Cola Enterprises Inc. has taken an ambitious goal--providing ongoing, intensive support to at-risk kids in inner-city Los Angeles, from middle school through college--drawn up a plan, and now devotes a large portion of his time outside the office to making that plan work.

The start of this new era can be traced to late September, 1997, when cable-TV mogul Ted Turner anted up an historic \$1 billion pledge to the U.N.--and challenged wealthy "skinflints" to do likewise. The nation's underachieving billionaires got an even bigger prodding two years later when the world's richest man, Bill Gates, pumped a staggering \$16.5 billion into his foundation to help pay for a campaign to improve health care for the world's poor. Gates and his wife Melinda have since poured a total of \$25.6 billion--some 60% of their current net worth--into their foundation, making it the world's largest. Their mission to bring vaccines to poor children in Africa and India is as strategic and sweeping as Carnegie's promise to build a library in every American town.

To track who's who in this new world, *BusinessWeek* has ranked 50 of the most generous donors in America. Using public records and interviews, we've tallied donations going back five years as well as total contributions and pledges. Then, because generosity is a relative term depending on the size of the pot, we've looked at total giving as a percentage of current net worth. Naturally, there are limitations to our methodology, the main one being that many wealthy donors prefer to give anonymously--and take great pains to make sure their gifts are never identified. What our ranking does show, though, is that many of the new philanthropists are willing to back their bold plans with substantial portions of their personal wealth. Together, this group has given \$41 billion over the past five years.

The other names on *BusinessWeek's* Top 50 are no less sweeping in their goals than Gates. Los Angeles billionaire Eli Broad, No. 4 in the ranking, is giving hundreds of millions to help reform urban school districts and train a new generation of educational leaders. Hedge-fund manager George Soros, No. 6, has funneled hundreds of millions to support what he calls "open societies" around the world that embrace freedom of speech and religion. Gordon Moore, co-founder of Intel Corp. and No. 2 on *BusinessWeek's* list, recently pledged \$25 million to halt the possible extinction of salmon in the Northern Pacific Rim. And former Netscape Communications Corp. CEO James Barksdale, No. 36, is giving \$100 million to improve literacy among children in his native Mississippi.

For every one of these big-money donors, there are hundreds of other individuals below this radar screen who have embraced philanthropy in creative new ways. That's why we're also including a table of the nation's most innovative givers. Catherine S. Muther, a former Cisco Systems Inc. executive, has launched an incubator to help nonprofit startups in San Francisco. Mario Morino, a former high-tech entrepreneur, is using a venture-capital approach to fund nonprofits that assist inner-city children in the Washington (D.C.) area. Jeffrey Skoll, former president of eBay Inc., is giving \$150 million to help already-successful nonprofit leaders expand their work. These new philanthropists are determined to donate their fortunes not on their deathbeds but during their lifetimes. Doing so allows them to undertake important projects sooner and to exert more control. "That is unheard of," says Doug Lawson, a longtime fund-raiser and consultant. "Most of the big money was always given by people over 65."

It is also clear that there are plenty of wealthy laggards (table, page 94). The second-richest man on earth, superinvestor Warren E. Buffett, has so far given about \$230 million, making him No. 23 on our ranking. But that's only 0.6% of his current \$36 billion in personal wealth, which is mostly in Berkshire

Hathaway Inc. stock. That puny percentage also puts him on our list of laggards. Buffett, 72, says he plans to pass his stock to his foundation after his death and that the best thing he can do for any causes it may someday fund is to make as much money as possible before then. That could pose some problems. The Bill & Melinda Gates Foundation, considered one of the leanest, has a staff of 230. A Buffett charity could have an endowment that's even bigger--with almost no infrastructure in place.

Or consider the Waltons. The family of Wal-Mart founder Sam Walton has given a whopping \$1 billion to charity. But that's barely more than 1% of their \$94 billion fortune. Most of that consists of their 38% stake in Wal-Mart, a stake they consider sacred. They base their giving, instead, on the \$500 million pretax income it throws off each year.

Similarly, Oracle Corp. founder Lawrence J. Ellison to date has given less than \$100 million, even though he has amassed a fortune worth \$15.2 billion. Ellison, who does support medical research on aging, says results count more than the size of the gift. "Until you start solving problems, until you start curing diseases, until you start delivering results, what difference does it make how much you give?" said Ellison at a *BusinessWeek* forum in New York last year.

The surge in private donations, which has more than doubled the number of grant-making foundations since 1987, to more than 56,600, is a harbinger of what's likely to be an even bigger period of growth in American philanthropy. If the trends of the past quarter-century continue, charitable giving in this decade alone could be a trillion dollars more than it was in the previous one, says Erik D. Smith, author of a recent Global Business Network report on philanthropy. The coming philanthropic flood, adds Smith, "would be similar to having a hundred Andrew Carnegies carrying out their own free library programs, except they'd be doing it in 10 years rather than the 37 years that Carnegie's library giving spanned."

A good chunk of this will come from recently established foundations that will receive their principal endowments over the next 15 years. EBay founder Pierre M. Omidyar, for example, has put only a fraction of his \$4.4 billion net worth into his foundation--little more than \$50 million--even though he says he plans to give away all but 1% of his wealth before his death. Home Depot Inc. founder Bernard Marcus, 73, has given only \$350 million of his \$1.8 billion fortune, most of which he also says he intends to hand out in his lifetime.

Many of the new class of super-rich aren't waiting until retirement to start giving back. Instead, they're starting innovative programs that in essence become second careers. Ex-eBayer Skoll, 37, has developed a strategy not unlike the venture capitalist who funds an entrepreneur with a proven track record. Skoll seeks out the most promising social entrepreneurs in the world, nonprofit leaders who have already made a difference on a local or regional basis and need capital to take their idea to the next level. "We're trying to create long-term partnerships with these folks," says Skoll, No. 30 on *BusinessWeek's* list. "Our hope is to find real inflection points in their work where we can partner with them to make them more successful."

One recent example is a \$300,000 grant to Martin Fisher, who created a nonprofit company in Kenya 10 years ago. It develops cheap technologies, from irrigation pumps to earth-digging equipment, and makes them available to poor farmers for as little as \$18. Fisher's nonprofit has been so successful in transforming the lives of Kenyan workers that it is contributing 0.5% of Kenya's gross national product.

While Skoll systematically sifts the nonprofit world for high-impact initiatives, other new philanthropists are driven to projects by a searing personal experience. James E. Stowers Jr., founder of American Century Services Corp., an asset-management firm, has put an extraordinary \$1.5 billion of

his money--roughly three times his current net worth--toward the creation of a medical research center in Kansas City, Mo., to find a cure for cancer. It is no coincidence that he, his wife Virginia, and one of their daughters have all survived cancer. Bernie Marcus first became interested in helping mentally retarded children a decade ago when a Home Depot employee in Atlanta whose child suffered a brain injury had to seek help as far away as Boston. He has spent \$70 million to create an institute in Atlanta to serve children with brain disorders--even recruiting a top scientist away from Johns Hopkins University to head the center.

In each case, these big-money philanthropists are placing bets on key ideas and becoming hands-on in their design and implementation. They have heeded Carnegie's celebrated call to employ in the service of their communities the same smarts and diligence that made them rich. Marcus, for one, hopes to give away the bulk of his fortune before he dies so he can oversee exactly where the money goes and how it is used. Just in case he dies before that, he has videotaped himself talking about his priorities and philosophy of giving, to be shown to future foundation trustees who never got to meet him.

By starting his giving early in life, Bill Gates believes he can make a more meaningful difference in eradicating disease in developing countries. If he had waited until his death to use his wealth to good purpose, it's likely that tens of thousands of poor children would have died prematurely because they wouldn't have had the benefit of a measles vaccine that costs only 25 cents. "Bill learned enough about the burden of infectious diseases to believe that his dollars are best used now," says Patty Stonesifer, a former Microsoft senior vice-president who is president of the Gates Foundation. "The cost of him being really smart about malaria at 45 vs. 65 was extremely worthwhile. The impact of this money over those 20 years could be great."

Gates is giving away about \$1.2 billion a year through his foundation but is open to spending far beyond that sum annually. His major concern is effectiveness. "It's harder in philanthropy to know you did the right thing," says Stonesifer. "The reason there are big social inequities is because they come from deep, complex, historical pressures. There is no quick fix to these problems. Long-term solutions require thoughtful, committed programs to work." It is that and not an objection to distributing more that determines how much the foundation gives away, she says. "Bill would be excited if we brought him another billion-dollar idea or even a \$5 billion idea."

Many other new philanthropists are finding that giving money away can be tough. Eli Broad started two successful companies: insurer SunAmerica Inc. and homebuilder Kaufman & Broad Home, now KB Home. Yet "I'm working harder at this than when I was CEO of SunAmerica," he says.

Broad's first \$1 million gift was made 22 years ago to help build the first contemporary art museum in Los Angeles. Since then, he has given or pledged more than \$1 billion through four separate foundations. But most of his energies these days--and \$400 million of his money--are focused on helping to reform public education in the U.S. Broad is taking an unusual approach: He's working to develop better educational leaders and creating an annual competition among urban school districts to improve the performance of their students. The winning district gets \$500,000 in scholarship money for college-bound graduates. Broad gave the first prize to a school district in Houston this year. "Now, they can become missionaries to share their best practices with other school districts," he says.

As an entrepreneur, Broad believes that only better leadership will solve the nation's educational crisis. So he also has launched centers to train urban school superintendents and school-board members. The year-long program for superintendents teaches them everything from labor relations to effective leadership, providing role models and lessons from successful school districts. More important, Broad believes, the center has attracted a large amount of nontraditional talent, from retired army generals to

businessmen, who have proven leadership ability and want to apply it to education.

To Broad, giving back is a modest expression of his appreciation for his good fortune. "I know where I came from," says the liberal Democrat, whose father emigrated to the U.S. from Lithuania and was a housepainter and small merchant in Detroit. "I had the wrong religion, the wrong politics, and the wrong family background. But you're accepted in this country if you have a lot of good ideas and energy. I just don't want to sit here with my money and maintain the status quo."

John Alm was drawn to the challenge of helping disadvantaged children in inner-city public schools. He has spent \$7 million in recent years to create a novel program for disadvantaged middle-school children in Los Angeles. Each year, he and his wife Carolyn bring 72 children who have just graduated from eighth grade to Camp Paintrock in the mountains of Hyattville, Wyo. The goal: to prevent them from being among the 38% of ninth-graders in inner-city L.A. schools who eventually drop out. "I'm hoping I can take these at-risk kids and show them a different lifestyle and potential, work with them through high school, help them get into college, to plant them into society as adults who can make a difference," says Alm.

This is fully engaged, high-involvement philanthropy. Alm created his own foundation, built the camp from scratch, designed the program, and hired three staffers to run it. His wife interviews many of the students chosen by teachers and school counselors. Alm uses vacations and weekends off to work with the children during the summer, while his wife is involved in each of the two five-week camp stays. "The rewards I get from this are unbelievable," he says. "Maybe I could have written a check to an organization and it could do better, but Carol and I wanted to be involved. Maybe it's selfish, but we wanted to see it and feel it."

Not that this new approach hasn't suffered some growing pains. The recent boom-to-bust cycle has been particularly humbling, causing many prominent donors to cut back or postpone their contributions. The Turner Foundation, which recently went through a round of layoffs, is refusing any new funding requests in 2003 and will consider new grants in the following year only by invitation. And some benefactors have fallen behind in making good on their pledges. The Metropolitan Opera in New York recently created a bad-debt reserve to cover a \$4 million pledge from financier Alberto Vilar, who has had to delay several grants because of the downturn in tech stocks.

Other new philanthropists have gone off course by assuming they had nothing to learn from those who went before. Some were overzealous in pursuing a venture-capital model in their giving--doling out seed money to social entrepreneurs and insisting on an unrealistic "social return on investment." The difficulty of achieving change in such intractable issues as drug rehabilitation or economic inequality has led to a sobering reassessment by many newcomers. "The trouble is, a lot of new people came into this cocky. We thought we had all the answers and wanted to do it ourselves," concedes Morino, 59. He has since pledged or given away some \$25 million to organizations such as Washington (D.C.)-based Heads Up. "We should have been more respectful of the people who have done this all their lives."

Then there's the issue of what gets funded. Philanthropists get substantial tax write-offs when they contribute to their causes as a way to encourage them to return some of their wealth to the community. The community, however, has no say over what they fund, even though the favorable tax treatment is, in effect, a partial subsidy from the public. Recently, for example, Ruth Lilly, an Eli Lilly & Co. heiress, pledged at least \$100 million to Poetry, a small, financially strapped literary magazine. While that may be a good cause, many could legitimately question whether it was the best use of \$100 million.

Donors, meanwhile, face problems of efficiency and scale that the corporate world has long since

overcome. If philanthropy were an industry, it would be a highly fragmented, remarkably inefficient array of enterprises. On the giving side, tens of millions of donors and foundations give a total of more than \$212 billion a year to charitable causes. "There's a lot of money just sloshing around out there," says Melissa A. Berman, CEO of Rockefeller Philanthropy Advisors, which assists wealthy individuals in developing and managing their charitable giving. "Half of all the giving is not used optimally." And most foundations dole out only the required minimum of 5% of their assets annually, preferring to perpetuate their own organizations rather than put more muscle behind their stated cause.

On the receiving side are some 700,000 public charities, 40% of them with annual budgets of less than \$100,000. Generally, they are vastly undercapitalized, understaffed, and poorly managed. Most nonprofits use their limited resources to market themselves to the same donors and foundations year after year. There's little if any investment in organizational infrastructure or staff development. "Compared to the for-profit sector, the nonprofit world is back in the late 1970s and early 1980s, when Japan was beating up American businesses," says Jeffrey L. Bradach, managing partner at Bridgespan Group Advisors Inc., a consultant to nonprofits and philanthropists. "It's only beginning to understand that if you want good outcomes, you have to invest in building strong organizations."

Many of the new philanthropists are trying to bring badly needed discipline and organization to the field, helping to more effectively match up the growing philanthropic capital with the most urgent social needs. That has led to another critical difference in the new philanthropy: active partnering among long-established private foundations, corporate funds, and individual donors.

Befitting this new spirit of collaboration, Acumen Fund Inc., a leading-edge philanthropic nonprofit, recently gathered 30 of its 39 "investors" for the first of what is expected to be the equivalent of an annual shareholders' meeting at, appropriately enough, Pocantico Conference Center, a piece of the old Rockefeller Estate in Tarrytown, N.Y. The group, which focuses on global social philanthropy, was created last year with seed funding from the Rockefeller and Cisco Foundations. Since then, W.K. Kellogg Foundation, AOL Time Warner Foundation, and 36 individual philanthropists have each ponied up from \$50,000 to \$500,000 apiece as founding partners. "We're learning how to bring to the same table philanthropists, corporations, the big foundations, and the government," says Acumen Fund founder Jacqueline Novogratz, who had led workshops for new philanthropists at the Rockefeller Foundation. "You're going to get better results."

Like many in this wave, Acumen is trying to redefine the rules of giving. Some causes will get loans or even equity-based investment instead of grants, plus management advice and connections. The fund then works with the enterprise to develop a business plan and structure the financing--and holds it accountable to agreed-upon milestones. "We like to give 20% of their budget so we have a real voice," adds Novogratz. "That way, it ties you closer to the success or failure of the organization."

More than a new approach or method of giving, however, the new donors are underwriting a remarkable era of creativity and innovation. Many of them are corporate or entrepreneurial dropouts who wanted to work in the nonprofit sector. Catherine Muther quit her job as marketing vice-president at Cisco Systems in 1994, when she was 46. With her high-tech marketing experience, Stanford University MBA, and \$2 million from Cisco stock options, she started her own private foundation, calling it Three Guineas Fund after the 1938 book by Virginia Woolf. The book takes the form of three letters, each a reply to the request for a guinea: one to prevent war and preserve intellectual liberty; one to educate women; and one to promote their employment. Woolf exacts a price for her donations: She insists that each fund-raiser hear her out on how the money can best be used. Muther first created a San Francisco incubator to support high-tech startups by women entrepreneurs and has since taken the incubator concept a step further--recently launching one to help nonprofit startups, including Silicon Valley-based

## Girls For A Change.

Like Gates and Turner, Broad and Stowers, Muther is one of many people helping to redefine philanthropy. And they are heeding the most important message that Andrew Carnegie delivered more than a century ago: "The day is not far distant when the man who dies leaving behind him millions of available wealth will pass away unwept, unhonored, and unsung. The man who dies thus rich dies disgraced."

By John A. Byrne

With Julia Cosgrove, Brian Hindo, and Adam Dayan, in New York

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