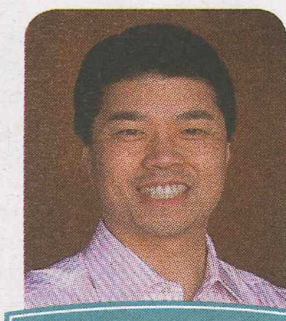
Improve your philanthropic ROI

85 percent of donors don't do meaningful diligence on recipients of their gifts

Would you hand over a $100,000 investment to buy shares of a company you didn't know much about and how they were performing? How about $10,000? $100?

Recently, I attended a philanthropy conference where Jeff Raikes, former right hand man to Bill Gates and CEO of the Bill and Melinda Gates Foundation, shared this data point: 85 percent of donors conduct no meaningful diligence about the organizations they fund or follow up on the impact of their donations. As a business leader, does your philanthropy meet the same standards of your retirement or business investing?



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Level 1: Checkbook giving. The vast majority of us fund organizations and causes because we are asked, and because it feels good or feels right. We are checkbook givers. We rarely if ever follow up on that donation to find out if it made a difference. Wearing our business or investment hats, it's the equivalent of buying shares of stock in a company without any analysis, and never checking the value of the shares afterwards. What is the return on investment? We don't actually know.

Level 2: Co-investing giving. In the financial investing world, for those of us without the time or passion for understanding markets and selecting individual stocks or investments, we have the option of investing in "funds" where an expert fund manager's full-time job is getting a return on investment. Perhaps you have researched the best mutual fund with a balanced 60/40 approach that meets your financial goals with a 6.5 percent return over long market cycles. Or perhaps you invest in a portfolio of mutual funds, with a few select stocks you do know well, targeting a slightly higher ROI based off more work on your part.

What is the equivalent in giving? One high profile example, Warren Buffet chose to put his billions with the Gates Foundation, which is targeting measurable improvements in education and wiping out global diseases. Buffet knew his money would have higher ROI co-invested with philanthropy experts. Locally, organizations such as United Way and Empire Health Foundation have very measurable targets and strategies to move the needle, such as improving the number of kids in the foster care system, or educational attainment. Just like a mutual fund, your $1,000 gift is pooled with gifts of $100,000 or sometimes millions in aligned funding and expertly managed to get strategic ROI.

Level 3: Engaged giving. So how can we take our stewardship of our philanthropy to another level? The best answer lies in graduating from the level of investing in a mutual fund to becoming a venture capitalist. The venture capital index had 34 percent annual returns over the last 20 years, while the Dow Jones returned 10 percent. Why? Because of that higher level of engagement in their investments.

Like a VC, many of us can take our giving to another level by engaging at a deeper level with the causes and organizations that we care about. We join boards before giving, we volunteer at an operational level before giving, and we bring our unique expertise to an organization that needs it along with our dollars. Perhaps you care about the environment and can help a regional organization measurably increase the number of acres preserved by both donating and providing your expertise. Perhaps you care about education and can help a regional organization measurably increase the number of children graduating by both donating and providing your expertise. Higher engagement by you will result in higher ROI.

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Level 4: It's your responsibility to generate ROI. Given your success in your profession, imagine if you directly applied your intelligence and resources to making a difference. It's literally your job for the nonprofit organization to deliver on impact. The business equivalent would be owning your own company, or being a leader or executive in a business instead of just a hands-off investor. How many times has an executive or entrepreneur taken a small amount of capital and turned it into millions in equity or market value? The ROI exponentially exceeds the 6.5 percent to 34 percent returns I have already discussed above.

I also recently had the privilege of attending the Providence Sister Peter Claver Humanitarian Awards. Eight amazing individuals who have made a profound difference. This year's winner, Dr. Joan Craig, was a retired doctor who decided to help educate Burmese children with no access to learning. She started and funded a new organization, that began by smuggling education supplies in local agriculture trucks, and paying a teacher $23 a month to teach young kids. Fast forward to today, the organization has helped to educate over 150,000 Burmese children! Talk about exponential ROI!

So what's the bottom line? We all should improve our philanthropic allocations. As with our business and retirement investments, we should take our stewardship of the philanthropic resources we control to a new level of return. Maybe you have been a checkbook level 1 giver for years; make a pilot investment in level 2 or 3. Maybe you have a portfolio of some level 1, 2, and 3, and it's time to shift completely out of level 1 and allocate your giving to level 3 for maximum impact and ROI. Right now is always the best time to improve your philanthropic ROI.

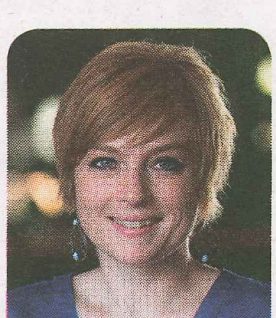
Well, since you're reading a special philanthropy section, I'm guessing in the coming months you will give money to make the world better.

Antony Chiang is president of Spokane-based Empire Health Foundation.

Ask good questions to get good answers

Align your strategic giving goals with the goals of the recipient program

As a leader or member of a foundation or charitable organization, are you asking the right questions to gain the most comprehensive understanding of your return on investment?



Jennifer LeBeau
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ROI is a term and practice intimately familiar to foundations and charitable organizations, typically serving as a profitability or efficiency measure to evaluate the performance of programs receiving funding. Yet, in an era of accountability, understanding a program's performance or justifying dollars spent must go well beyond calculation of net profits and net worth. A need exists to have valid and reliable measures for ensuring adequate allocation and spending of funds, particularly in cases in which the costs or assets are not clearly defined.

While the onus of providing evidence of successful programming has traditionally fallen on program personnel, determining whether funds are spent wisely is increasingly a responsibility of foundations and charitable organizations themselves. Organizations that ask more detailed questions of their prospective programs are better-positioned to identify areas of growth and success in the programs they are funding, to justify dollars spent, and to understand and help facilitate the process of providing clear documentation of program impact or effectiveness.

A good place to start identifying relevant questions to ask of funded programs is to first define your goals and determine whether they are SMART (Specific, Measurable, Achievable, Realistic, and Time-bound). Having clearly defined goals ensures that funds are being allocated to programs that serve your intended purpose. SMART goals provide a deeper understanding of that purpose and also set the groundwork for feasible and meaningful expectations and benchmarks for the programs to which you are donating. Establishing clear goals and expectations also helps situate your program in a broader context and poises you to answer the first set of important questions related to your ROI:

•What are the goals of the program to which we are donating funds?

•Are the program's goals aligned with my goals or the goals of our organization or foundation?

•Are the program's activities and objectives clear and closely aligned with my or my organization's goals?

•Is the population we are trying to reach with our funding the population actually being served?

The answers to these evaluative questions will help ensure alignment of the program's goals, objectives, and activities with your or your organization's goals. If your goals and the program's goals aren't clear or don't align, identification of assets and assessment of impact will be difficult to carry out. Asking questions up front can help limit such challenges and foster open communication among donors and recipients.

A need exists to have valid and reliable measures for ensuring adequate allocation and spending of funds.

Another set of important questions can help address whether and in what ways those dollars are making a difference:

•Can the program delineate where and how each dollar is spent?

•Can the program personnel identify the assets and costs of the program?

•Is there a way to assign value to all assets?

Are there outcomes that are not easily measured?

•If there is no way to assign value to assets or if outcomes are not easily measured, how are these assets and outcomes being examined as part of the impact claim?

These questions offer a deeper look at your ROI by shedding light on program costs and benefits, expected and actual expenditures, and specific details related to measurement of outcomes.

Asking program personnel and stakeholders to identify and rule out other external influences on, or potential explanations for, the observed outcomes will also help narrow down the ways in which your dollars are being utilized to make a difference. It is important to remember that many outcomes, particularly those related to program impact, take time to achieve. Your program contact will be able to help ensure that your ROI outcomes are feasible, ethical, and appropriate. Ultimately, the more questions you ask, the more answers you will receive that can help illuminate and potentially enhance your ROI.

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