

Santa Barbara Foundation 75<sup>th</sup> Anniversary Symposium  
The Future of Philanthropy  
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**I. Introduction**

I want to thank Chuck Slosser, for his kind introduction – and all of you – for the invitation to join this celebration of the 75<sup>th</sup> anniversary of the Santa Barbara Foundation. I am delighted to be here. This is my first visit to Santa Barbara. In fact, I have to confess that in my 51 years, I have spent less than 30 days in California. This is something I really need to rectify.

Now while I may be woefully lacking in my knowledge and experience of this great state,

I hope I am on firmer ground than Dan Quayle who once said “I love California. I practically grew up in Phoenix.”

All of us on the East Coast have certainly been paying close attention to California in recent weeks, and it seems that every New Yorker had an opinion on the recall process. One day –and this is a true story – I was walking down Madison Avenue and I passed a pan handler sitting on the sidewalk with a cup and a cardboard sign which read “Please contribute – I’m running for governor of California.”

So, I approach this afternoon’s remarks with a good measure of humility. There are many people here who have been involved in philanthropy far longer than I. My hope is that a newcomer’s perspective may be provocative – that what I have absorbed in my 2.5 years at the Rockefeller Brothers Fund may stimulate debate – and that together we may generate some new ideas to strengthen a field we all care deeply about. I look forward to the comments of this distinguished panel as well as the open discussion with the audience that will follow.

It is a special privilege to address the staff, trustees, and friends of the Santa Barbara Foundation. Community foundations are a largely unheralded, but invaluable force building and sustaining communities all across America. And, as one of the country’s oldest community foundations and still the largest source of philanthropic dollars for Santa Barbara County, this Foundation is a wonderful example of concerned and effective philanthropy. For three quarters of a century, the Santa Barbara Foundation has been nearly indistinguishable from the community itself—from the Foundation’s early days providing free band concerts to local residents, through the shifting challenges associated with Santa Barbara’s rapid growth, to its indispensable support of myriad nonprofits organizations, to students, and to individual donors. When a visitor like me admires the beauty and amenities of this place—parks, housing, health care centers,

youth centers, schools, museums, cultural organizations—we are admiring the Foundation’s work and the legacy of its colorful founder, Major Max Fleischmann. It is a wonderful story of the generous spirit of America. I congratulate you on 75 years of philanthropic excellence.

## **II. Explication of topic—“The Future of Philanthropy”**

True to your position of leadership in the philanthropic community, the Santa Barbara Foundation has chosen to celebrate this milestone not by looking back on its past accomplishments but by looking forward, and asking the critical question, “What is the future of philanthropy?”

This is obviously an immense and complex question. There are no easy answers or proven prescriptions. Much is not in our control—from the performance of the stock market to the course of international relations. Global society is experiencing a period of profound change, largely associated with the broad and deep implications of globalization. As a result, philanthropy is being called on to respond to new needs and opportunities. At the same time, the field of philanthropy faces a number of operational and political challenges that may constrain our ability to act.

Given the challenges ahead, it is essential that foundation leaders and individual donors work together to chart the future course of philanthropy. Whether we are working in corporate, community, national, family, or individual philanthropies, we have much to learn from each other – and much to gain by working together to prepare philanthropy for the new forms of leadership that will be required of us in the 21<sup>st</sup> century.

I entered philanthropy as an outsider. In the decade before I arrived at the Rockefeller Brothers Fund, I was a grant seeker. I spent nine years after the fall of the Berlin Wall at the EastWest Institute in Prague, working to assist the democratic transitions occurring across Eastern Europe and the former Soviet Union. I then returned home to found Dēmos, an organization combining research and advocacy to help revitalize American democracy and promote more broadly-shared prosperity. These experiences inform my perspective on the work and role of foundations in democratic societies.

This afternoon, I will first briefly examine some of the key challenges facing society as we look out into the 21<sup>st</sup> century. I will also enumerate a set of challenges that are specific to the management of philanthropy and suggest that there is paradox between increasing demand for philanthropy coupled with potentially serious constraints on our ability to meet this demand. I will then offer some steps I think foundations should consider in order to maximize our effectiveness going forward. Finally, I’ll conclude with some thoughts on the critical importance of trustworthy philanthropic leadership at a time of deep distrust in many vitally important institutions.

This is a huge undertaking—especially in 30 minutes. I’m reminded that Mrs. Louis Brandeis once remarked that her husband frequently made two mistakes when giving speeches: first he strayed from his topic and then he returned to it. I’m afraid you may find me guilty of both before I’m finished with these remarks

### III. Significant challenges but an inspiring track record

I need not devote much time to a recitation of the complex set of challenges facing humankind at the dawn of the 21<sup>st</sup> century. Many are associated with the process of globalization. Globalization has connected citizens all across the planet in profound new ways. But the results have been terribly uneven.

Globalization has produced the freer flow of information, ideas, and capital. And while globalization has produced vast new wealth for some, it has, thus far, left many more even further behind. It has accelerated the spread of freedom and democracy and yet the institutions of global governance remain woefully undemocratic.

We are facing new global problems that respect no national borders: the spread of disease, including HIV/AIDS, environmental threats like climate change, and new security threats like global terrorism. Fragile, irreplaceable ecosystems are threatened by the pressures of development.

In the United States we face growing federal budget deficits that will undermine the economy our children will inherit. But we also face a growing “democracy deficit” as measured by falling rates of civic engagement, eroding trust in government, and the growing power of special interests. Similarly, we must address a widening “prosperity gap” as disparities of wealth and income have reached disturbing new levels.

These are but a few of the challenges and needs we face – all of you could add to this list. I hasten to add that there are also wonderful advances taking place all across the globe as people, many supported by philanthropy, devote their talent and energy to solving problems, advancing the human condition, and expressing their creative genius through the arts and culture. Nevertheless, it is clear that in the years and decades ahead, philanthropy will be called on to do more, to respond to a wider array of needs and opportunities

### IV. Challenges Specific to Philanthropic Institutions

As we look to the future of philanthropy I see a very real paradox: foundations are being called on to do more, and to do so with greater impact – *just as we are also experiencing new constraints on our effectiveness*. I will briefly mention only five:

- **First, foundations face the prospect of greater government oversight and regulation (along with critical media scrutiny).** Congress is currently considering legislation, known as H.R.7, that in its original version, would have eliminated foundation administrative expenses as qualifying toward the requirement that we pay out an average of 5% of our assets each year. The sponsors of the legislation argue that they are responding to highly visible cases of alleged mismanagement, excessive executive and/or trustee compensation, and otherwise lavish administrative spending, as reported by the media. The legislation would have produced increased grantmaking as foundations boosted grants budgets to meet the 5% target, but over time, the

purchasing power of foundation portfolios would be seriously eroded. The legislation seemed to ignore the central truth that careful and wise grantmaking takes good management and administration. As you know, the compromise that was struck in the Ways and Means Committee is far less constrictive, but I am certain Congress will continue to focus increasing attention on the work of foundations in the coming years. A number of very conservative members of Congress are quite direct in expressing their belief that private foundations should be required to spend down their assets.

- **Second, government budget cutbacks will leave many important programs woefully under-funded.** Tax cuts, increased defense expenditures, and growing federal and state budget deficits mean severe reductions in government spending for vital programs including social services, education, the environment, and the arts and culture. Philanthropy will be called on to help fill this gap.
- **Third, at a time of increased need for global philanthropy, transaction costs are rising.** Many of the challenges philanthropy is being called on to address are global in nature. The need for global grantmaking is greater than ever as the boundary between domestic and international issues continues to fade. Global grantmaking has always been complicated and administratively demanding. The cost of these transactions is higher than the cost of domestic grants. And given concerns about the financing of terrorism, the US Treasury has issued “Voluntary Guidelines” that hold donors responsible for the end use of their grant dollars. In the most extreme case, the guidelines provide that if any funds should find their way into the hands of any individuals or organizations that are suspected of having any ties to suspected terrorists, the donor’s assets may be frozen.
- **Fourth, foundations face lower investment returns in the decade ahead.** After the boom decade of the 1990s when many foundation portfolios experienced double digit investment returns, we now face the prospect of at least a decade of very modest rates of return. Many financial analysts, including the members of the investment committees of most foundations, believe that we will be doing well if we experience real rates of return at the 5-7% level. So it’s clear that we won’t have increased assets to work with as we face increasing needs and opportunities.
- **Finally, while the massive intergenerational transfer of wealth likely to take place in the coming years can bring vast new assets into philanthropy, it will also magnify the need to spread sound philanthropic practices.** One 1998 study estimated that as much as \$31 to \$41 trillion will be transferred from one generation to the next by mid-century.<sup>1</sup> Efforts to permanently repeal the Estate Tax may reduce the flow of this wealth into philanthropic purposes. But in any case, as the number of philanthropies

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<sup>1</sup> Social Research Institute, Boston College.

continues to proliferate – there are now some 50,000 foundations! – greater effort will be needed to assure that they are well managed and effective.

## V. What Should Philanthropy Do in the face of these two sets of challenges?

So what should philanthropies do in the face of the paradox of simultaneously rising needs and constraints? I begin my search for some answers to this question by focusing on the need for new forms of leadership.

As I see it, the primary role of philanthropy is to provide the venture capital for social innovation. Our grantees do the hard work—serving communities, generating new ideas, and advancing positive social change. We must never forget that we are here to serve people by effectively serving our grantees.

Traditionally, foundations have exercised leadership *by extension*, through the work of our grantees. But I want to suggest this afternoon that given the profound challenges ahead, this can no longer be the extent of our leadership. Foundations must now exercise leadership *directly* – as well as through our grants. In particular, we have a unique responsibility to help create and maintain a healthier and more productive balance between government and the free market, with a vibrant nonprofit sector as the fulcrum.

During the 20<sup>th</sup> century, the balance between the primacy of the state and the primacy of the market swung like a pendulum across the globe. And it seems the century came to an end with the balance shifted too far toward the private sphere, with too much confidence invested in the market. In fact, it seems to me that a central lesson of the last century is that neither big government nor big capital is able to meet the full array of societal needs. The challenge of these early years of the 21<sup>st</sup> century is to recalibrate the balance by strengthening the role of the nonprofit sector.

Government is best when it focuses on providing and managing *public goods*. And clearly the private sector is efficient at producing *private goods*. The nonprofit sector—with the conscious leadership of foundations—must rise to the challenge of fulfilling the *common good*. I suggest that achieving proper balance among the three sectors will be as crucial to the *future* of America as establishing the balance between the branches of government and the between the levels of government have been to the success of our nation in its first two centuries. Creating and maintaining a new *social balance of the common good* will be the primary challenge for philanthropy and the nonprofit sector.

I believe fervently that philanthropy and civil society are up to the task. Philanthropy is an incredibly powerful force, one capable of accomplishing extraordinary things, as history quite clearly shows.

Two new books chronicle the powerful impact of philanthropy and civil society on the course of American history. In *American Creed*, scholar Kathleen McCarthy demonstrates that even in the decades between the Revolutionary and Civil Wars, philanthropy, including individual giving and voluntarism, was not only critical to the strengthening of democratic political culture but also contributed significantly to the

nation's economic growth as well. "It is not possible," McCarthy writes, "to understand the meaning of American democracy without understanding civil society. Nor is it possible to understand civil society without understanding the role of nonprofit organizations and the philanthropy that sustains them."

In a book called *The Greater Good*, Claire Gaudiani goes even further. She argues that philanthropy<sup>2</sup> has actually saved American capitalism. "Citizen generosity," Gaudiani says, "has, for almost two hundred years, created a social environment where capitalism could flourish without destroying democracy." In Gaudiani's view, the ingredients of this unique social environment include religion and spirituality; health and quality of life; arts and culture; education and upward mobility; the natural environment; and international peace and security.

This statement is made even more powerful by Gaudiani's carefully documented assertion that philanthropy did not intervene only at one grand moment of crisis. Instead, she writes, "generosity has saved capitalism over many, many decades, like a smart, kind friend watches out for a somewhat intemperate but gifted colleague, advising him throughout his life on the need for self-restraint and better judgment."

I believe that the legacy of lasting impact that has been left to us by our forebears endows us with a powerful confidence. The privilege of promoting justice and peace fills us with joy. The possibilities of what we can accomplish offer us hope. Armed with confidence, joy, and hope, we no longer need to waste energy asking whether we can meet the daunting challenges facing us in this new century. We can apply our focus on getting started.

## **VI. How?**

I certainly do not pretend to have all the answers. I still have many more questions. But I do have a few observations and some suggestions on how foundations might revise their approaches in order to achieve impact commensurate with the problems we face:

- **I think we need to re-examine and perhaps recalibrate our "risk profile."** Foundations should foster what I call an "experimental disposition" – both in our own operations and among our grantees. As with all experimentation, we must be prepared to embrace failure. If we aren't failing at least some of the time, we aren't experimenting enough. Failure incurred through risk is instructive. Failure to take risk will be defeating.

**American foundations – including community foundations – have to be involved globally.** We are living in an increasingly interdependent world and as we address issues, we must see their "local to global" and "global to local" links. Unfortunately, recent trends in international giving by U.S. donors are not encouraging. As a share of overall foundation funding, international giving declined from 16.3 percent in 2000 to 14.7 percent in 2001. And if you subtract the vast new global philanthropy of the Bill and

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<sup>2</sup> Gaudiani defines philanthropy as generosity devoted to social investment rather than charity.

Melinda Gates Foundation,<sup>3</sup> the decline in international giving is even greater. Yes, the transaction costs are higher and the administration of global grantmaking is more complex. But we ignore the world at our peril.

- **Wherever possible, and even though it requires additional effort, we ought to support indigenous leaders and organizations and their ideas.** Those closest to an issue clearly are best equipped to address it and ought to be given every opportunity to do so. Building the capacity of global civil society is essential to creating *social balance for the common good*.
- **We must search for ways to heal the deficits in American democracy.** We can neither govern ourselves effectively nor provide an example for others if we do not reduce the “democracy deficit” I spoke about a few moments ago. American citizens can and want to participate in civic life. We must find and support new ways to help them do so.
- **We should pay close attention to the balance between remaining open to new grantees and new ideas and the need to provide stable, multi-year general operating support to those NGOs with proven track records.** If our grantees are too consumed by concern for their financial futures, they simply can’t perform at their best.
- **We need to encourage and enable collaboration among grantees to promote shared learning and expand effective networks.** This is a fairly common practice for grantees within particular fields. But we also need to be looking for more holistic approaches to societal problems. We should seek out innovative opportunities to link grantees across issue areas to craft nuanced solutions to complex problems.
- **Foundations have to heed our own advice as well.** In the 2.5 years that I have been a foundation president I have been frustrated by how little real collaboration exists within the foundation community. Sure we need to guard our independence but just as surely there are more ways we can work together in support of common goals.
- **We should urge NGOs to advocate aggressively for public policies that incorporate the lessons of social innovation pioneered by the nonprofit sector and support them by doing so ourselves.** I recognize that this is controversial – but nonprofit advocacy, and even some lobbying, is permitted by law. Government policy making, at the local, state and federal levels can benefit greatly from the lessons gained through nonprofit sector social innovations.
- **We must promote meaningful cooperation among the public, private and nonprofit sectors.** Just as our resources alone are inadequate to meet the challenges before us, the dedication of the nonprofit sector alone is insufficient. We must combine the resources, knowledge, and networks of all three sectors to design and

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<sup>3</sup> \$855 million in 2001 and \$507 million in 2002.

implement effective strategies and programs. Tri-sectoral cooperation is at the heart of the new *social balance for the common good*.”

- **We need to address effectively the difficult issue of how to bring greater rigor to the measurement of our impact.** Much of what we fund is not easily quantified, but that doesn't mean it can't be measured. I am convinced—and I'm sure many of you feel this way too—that there are inspiring stories of success and instructive tales of failure that are never captured or communicated. By being clear about the objectives of our grants and working consciously to capture and share the knowledge produced by our grantees, we will improve our performance.
- **In fact, we need to do a much better job of telling our story and the stories of our grantees.** The current debate in Congress reveals a disconcerting misunderstanding of the role of philanthropy in democratic societies and a lack of awareness of the positive impact of philanthropy. We need to communicate regularly, honestly, consistently and effectively.

## VII. Proposal for accreditation

Now, I know this is quite a list. But if you'll bear with me for another moment, there is one other fundamental challenge I believe we must address if philanthropy is to meet its responsibilities in the years ahead.

As I have indicated, philanthropy – and foundations in particular – are little understood and as a result, undervalued, by the public and our elected leaders. In part this is due to the traditional way we have exercised leadership, quietly supporting the work of our grantees.

But we have also given far too little attention to our own transparency and accountability as individual institutions and as a field. In short, as we seek to bring greater transparency, accountability, and effectiveness to government agencies, NGOs and the business community, “We must,” in Ghandi's memorable phrase, “be the change we seek.” We must be as accountable, transparent, and free of conflicts of interest as we wish government, NGOs, and the private sector to be.

I'd like to offer a proposal for your consideration—and look forward very much to your thoughts and reactions. I believe we should consider creating a system of peer-regulation among foundations that could result in a “seal of approval” attesting to the effectiveness, accountability, and transparency of foundations. My guide in imagining such a system is the accreditation process used in higher education.

In that context, the process begins with a “self-study” conducted over some considerable period of time and following an outline of topics and questions prepared by the accrediting body. The institution defines its own priorities, goals, and policies in its own terms so that standards are tailored to diverse organizations. A committee drawn from a number of different peer institutions would review the self-study and visit the institution.



The visiting committee would then draft a written report including recommendations with regard to accreditation and any further steps the institution needs to take.

Obviously, it will take a great deal of time and creativity to adapt this process to the foundation world. If the field of philanthropy were to move in this direction, the process should probably start gradually, and on a voluntary basis, with some of the older and larger foundations, like the RBF. From this early experience, no doubt numerous lessons will be learned that can help devise a balanced, effective, and manageable system for building public confidence in the philanthropic institutions we all serve.

### **VIII. Conclusion**

This afternoon, I hope I have reinforced your faith that foundations have the traditions and capacity to help meet extraordinary challenges like those we face today. I have also offered some ideas for how we can improve our impact at a time of growing needs and opportunities as well as growing constraints. And, finally, I have put forward the idea of peer regulation as one method to ensure foundation accountability and build greater public trust.

This last point is critical. Over the last few decades, there has been a profound and dispiriting loss of trust in an array of important institutions.

- Despite a positive spike in the immediate aftermath of 9/11, the return of partisan bickering and new questions about the run-up to the war in Iraq continue to undermine public trust in government.
- Catholics and non-Catholics alike have been stunned by the incidence of sexual abuse by priests and the Church's slow response to the growing crisis. As a result, the moral authority of the Church on issues ranging from social mores to social justice is in some jeopardy.
- A rash of corporate scandals, beginning with Enron and continuing most recently with the New York Stock Exchange have further eroded trust in corporate America. An investigation by the *Financial Times* revealed that the chief executives of the largest 25 recent American corporate bankruptcies collected some \$3.3 billion for themselves in the three years before their companies collapsed, while employees and shareholders suffered huge losses.
- Unfortunately, public trust in our own sector has also suffered as high profile cases of mismanagement, conflict of interest, and self-dealing at some philanthropies and NGOs [e.g. United Way, Nature Conservancy] have been exposed. The public standing of a poorly understood sector has been further weakened by ineffective governance, inadequate oversight, and a lack of transparency.

For philanthropy to play its necessary role in restoring a proper balance between the three sectors of society – creating a *new social balance for the common good* – and addressing the significant challenges facing humanity at the dawn of the 21<sup>st</sup> century, we must be trusted. Greater attention to evaluating, documenting, and communicating foundation accountability and transparency is essential to achieving and holding public trust.

So what is the future of philanthropy? It is in our hands, of course. But this is really part of a much larger question: what kind of society do we wish to see in this new century? Philanthropy is in the unique position to play both a catalyzing and balancing role. This is what excites me about our future, as I know it does all of the staff, trustees and friends of the Santa Barbara Foundation.

Thanks for having me with you as you celebrate your 75<sup>th</sup> anniversary.