



CHAPTER 1

Getting Started

SAY YOU'RE SIXTY-SEVEN, AND YOU'VE SPENT your career turning your father's hardware store into a successful chain of stores throughout the Midwest, and you're ready for something else. Your children have no interest in taking over the business, so you decide to cash out. When the \$50 million arrives by wire into your account, you are floating. Then it hits: What to do with so much money? You have vague thoughts of travel and a fondness for musical theater, but few interests beyond that. Your life has been your work. You're a widower, and you want to set some of the money aside for your children and to be comfortable yourself. But that still leaves well over \$30 million. You're seized by the idea that you should be good to the society that has been so good to you. A major gift to your alma mater, perhaps, or possibly endowing a struggling theater in town? But, you wonder, aren't there more important causes? Wider-reaching ones perhaps? Ones where you could get involved yourself?

But what?


Or maybe you're forty-three, with a fistful of stock options in a company that was nothing more than a bunch of interesting algorithms when you first signed on and now has grown to dominate the market for software that assists in securing online purchases. The options have skyrocketed in value nearly a thousand-fold, making your net worth jump from about \$17,000, or whatever




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your car and clothes were worth at the age of twenty-four when you joined the company, to somewhere north of \$10 million today. You're unmarried, with just a cat for regular company—and you aren't the type to give everything to her. You have your own financial security to consider. But that still leaves at least \$5 million “extra,” as you think of it. And with everything that is going on in the world, you feel a little weird about having so much money just sitting in your investment account. You've contributed to political campaigns, donated a few thousand dollars to breast cancer research and other causes, but now you're thinking that maybe you should do more to make a positive difference in the world.

But what?



Or perhaps you're thirty-nine and you certainly aren't rich, but you do make a decent income, and you'd like to give some of it away. You don't have enough to end hunger in sub-Saharan Africa, but you are hoping to do a little good in a world that so plainly needs it. Plus, you like the idea of being connected to a cause that is larger than yourself. You give regularly to your local NPR station and have faithfully contributed to your college's alumni fund, although you sometimes wonder why. But now you're thinking that you'd like to bundle the money you make available for those gifts, and maybe add a little more, to come up with a few thousand dollars a year that might really help one cause—and be more satisfying for you too. But you look around, and all you can think is that everywhere you look is need. Still, you definitely want to do something.



But what?

Or let's say you're twenty-five. You've been at your first job for a few years now and recently got a raise with your first promotion. You rent, have a roommate, and tend to be economical. So even after your student loans and car payments, you have a bit left over. You see what is going on in the world, and you'd like to do something to help. Your company will match your donations



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dollar for dollar. But there are so many choices! You're besieged by requests from friends to sponsor them on charitable walks, runs, rides, events. And that's nothing compared to all the appeals that come in the mail or from homeless people on the street. And you have your own organizations and causes you would like to support. You don't have that much money, but you would like to do something smart and useful with it.






But what?



If you see yourself in one of these vignettes, you are not alone. There are millions of people like you—well-meaning people who have more money than they need, would like to do something worthwhile with it, and are baffled as to what. It is not for lack of funds. In the first half of this century, before the downturn of 2008 skewed projections, it was predicted that \$40 trillion would be passed down to the baby boomers from their parents and grandparents of the World War II generation. \$40 trillion: that's four hundred times this year's military budget, twelve times the entire outlay of the federal government, and three times the nation's gross domestic product. It was enough to create 40 million millionaires. And this is not including the wealth created more recently by hedge fund managers, venture capitalists, real estate developers, founders of computer and Internet companies, and other holders of equity stakes in growing businesses—all of whom have come into tremendous fortunes seemingly overnight.


Although the full impact of the recent economic downturn is not yet known, our faith in American resilience leads us to believe that while the numbers may change, the issue will again emerge. But all the more striking are the donors who are not rich but are hard working, who, for all the emphasis on the Gateses of the world, constitute the bulk of the donors in the new philanthropy. Of






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2007's record-breaking \$306.39 billion in charitable contributions, individuals contributed 74.8 percent, the majority of the givers having incomes under \$100,000. (Corporations, foundations, and bequests accounted for the rest.) The prewar generation was more generous than the baby boomers, who were in turn more generous than Generation X, but mostly that is because disposable income is a function of age, and giving increases with income. Some of the money comes out of salaries, the rest from wise investments in real estate or the stock market. Whatever the source, the full array of such wealth is potentially the single greatest source for good in American history and, arguably, in the history of all mankind. Even as we adjust to lowered expectations, philanthropy will grow relative to other components of the economy.



As Tocqueville first pointed out, of all nationalities, Americans have the most fervid volunteer spirit, stemming from a conviction that the people should retain a greater power than the government to transform society. And so, to the astonishment of foreigners, America is the land of nonprofits. From universities to hospitals, from arts associations to day care centers, nonprofits are a tremendous part of this nation's gross national product. If the nonprofit sector were a single industry, it would be by far the largest industry in the United States, employing one out of every ten American workers.



So as a donor, can you just sprinkle your money over a few congenial nonprofits with nice brochures and celebrity endorsements, and then watch these institutions crank out good works? Perhaps. But for all of its many assets, the nonprofit sector, like all others, is pockmarked with tragically underperforming elements. Just as there are killer stocks and there are duds, the investor in nonprofits faces a welter of good, not-so-good, and third-rate



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

organizations clamoring for his money. Which ones are which? We certainly can't evaluate them all. Those that have (such as Charity Navigator) look at financial efficiency due to the challenges of sectorwide performance measurements of effectiveness and value. We think of philanthropy in investment terms—investments for a better world. Although, as we will point out, the challenge in nonprofits is often choosing between good and good, there are enough underperforming ones that donors should be wary. Too many nonprofits lack clear purpose, effective leadership, and competent management, and their highest priority appears to be preserving their own existence. We assail these underperformers because such entities turn the spiritual act of giving into a frustrating game.

It is important to remember that a nonprofit is a business, and it should be run as one, with no less an emphasis on efficiency, transparency, and accountability than you would find in its for-profit counterparts—indeed, more so. Although we celebrate the differences between mission-oriented nonprofits and profit-oriented businesses, we acknowledge the gap in measurements, benchmarks, and markets. The economic meltdown that began in late 2008 underscores the fallibility of unabashed business modeling. Nevertheless, the principles and experience of transparent competition can serve societal needs beyond the simple marketplace.

Charity Versus Philanthropy



Philanthropy is hard to do well. It is far more difficult to design and run a nonprofit than it is to manage a for-profit company of equivalent size. Why? Because in the nonprofit world, there is no





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single, universally agreed-on measure of success. Now we believe in measures, and work very hard to create them, and we use them to evaluate our own endeavors. But it is not obvious what those measures are, for there is no built-in bottom line of profit and loss of return on investment. Without such measures, nonprofits too often are flying blind, relying on guesswork as to where they are and where they are headed. And those guesses can be way off.



Plus, nonprofits are being buffeted about by enormous changes in the world of philanthropy, not the least of them stemming from the baby boomers' new approach to giving. Their parents largely believed in funding umbrella institutions like the United Way and Catholic Charities, which decided for them how the funds were to be spent. This was that generation's idea of saluting society for the benefits it had received. The baby boomers, by contrast, believe in making a difference personally. They want to choose for themselves the recipients of their donation and monitor the effects. Their parents usually called their giving "charity." The boomers prefer to call theirs "philanthropy."

There is a plethora of nonprofits in the United States, over 1.7 million in all, and they are often staffed by untrained volunteers who can be difficult to manage without financial inducements. The talent pool for paid management staff is shallow. Who do you know who made it his life's ambition to run a nonprofit? Not too many people, most likely. Compared to for-profit equivalents, the salaries are paltry, the status not much better, and precious few university programs offer these professionals any serious instruction. And the objectives are daunting: curing Alzheimer's disease, feeding the poor in Africa, developing new models for elementary school education.

Now into this jumble comes you, the neophyte donor, eager to make a difference with your money. Most likely, you have no



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direct experience with nonprofits beyond having been a consumer of some nonprofit service in a hospital or school, or done some volunteer work, or perhaps served on a board. Typically you have given the topic a fraction of the attention that you have lavished on your career, family, social life, hobbies, or investments. And yet you expect to engage in serious philanthropy before the week is out.

If it were that easy, those of us who have made philanthropy our life's work would have written novels, or composed symphonies, or engaged in many other extracurricular activities in our copious free time. Truth is, philanthropy makes serious demands not only on your pocketbook but also on your intellect, feelings, attention, and time. Nothing of value comes for free. If you are willing to give fully of yourself, you will receive satisfactions that are hard to come by on the for-profit side: the thrill of seeing your idea sent forth into the world to improve countless other people's lives. It's the joy of connection, of enlarging yourself. Yes, there truly is a joy to giving.

Philanthropy as we practice it shares one of the major principles of the for-profit world, and that is accountability. In some respects, old school charity was quick and easy in that it freed donors from significant social obligation. Donors could give a few hundred dollars to the United Way or place a few bills in the plate at church without having any particular idea where that money was going, who decided, why, and what good, if any, came of it. The institutions were unassailable repositories of probity and good sense. They knew better than anyone else how to fix any ills that beset society.

It's unclear how many people ever believed that, but few believe it now. Most people, quite rightly, believe that they are entitled to follow their money and see what it does, and if it's nothing,





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to look elsewhere for a nonprofit investment. Nowadays a donor can rightly expect that the nonprofit will make the most of his gift by leveraging it to the hilt. And he should feel free to ask tough questions when it fails to. This new business-mindedness is the norm. Nonprofits should be run just as crisply as for-profits. Meetings should start on time and end on time too. They should not be social gatherings that drag on endlessly for no purpose. A nonprofit isn't church either. It should not fall for a charismatic leader who gives the operation a charged-up, religious feeling—and loses sight of what it is actually created to do.

It's All About You

You have every right to insist on best practices in any organization you are going to favor with a donation, but you also need to focus on yourself. This may seem antithetical in an area of life that seems to rely on the most abject sort of selflessness: giving your hard-earned money to benefit people you don't know. But every transaction is an exchange; nothing is ever one way. When you give, you get, and we believe you need to focus on what it is that you are getting for what you give. We argue that what you get in philanthropy is nourishment for that portion of the body that is so sacred it cannot be found in any book of anatomy: the soul, where all that is best in us resides. It is simultaneously the innermost self and the one so external it seems somehow eternal—which makes it the natural connection point for our philanthropy, for we give to improve the world in a lasting way and to leave it with our stamp.