Active philanthropy – giving with impact and having fun

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Philanthropy has become a hot topic in the business world, especially for business-owning families. Families are increasingly getting involved in philanthropy and getting the next generation involved at a younger age

Philanthropy has been on top of most wealthy families' agendas for some time, not just since Warren Buffett hit the news in 2006 with his decision to pass on much of his wealth to the Melinda and Bill Gates Foundation, doubling the Foundation's total budget to over $60 billion.

A generation of generosity

While Buffett's gift is unprecedented in size, he is part of a generation of philanthropists who decide to give away their money during their lifetime. They do this in part to protect their children (Buffett is famous for saying that "a very rich person should leave his kids enough to do anything but not enough to do nothing"), and in part because they want to live to see how their money can change the world for the better.

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In the wake of his decision, Buffett joked to Gates that "I won't grade you more often than daily" on how the money is being used, indicating another trend amongst donors today: the urge to see an impact of their giving, to make sure that their money is being used as effectively as possible.

Different types and variations of philanthropy

Active philanthropy, venture philanthropy and engaged philanthropy are just some of the terms being used today to describe the more "hands-on" style of philanthropy that is on the rise in Europe and worldwide. Donors today realise that they can give more than money, and that a bigger and more lasting impact can be achieved if financial aid is coupled with entrepreneurial thinking, time and know-how invested into a cause.

Conversations with dozens of donors and recent studies have identified a number of "golden rules" that help not just to achieve the greatest impact but also to get the greatest personal satisfaction out of one's philanthropy. What follows is therefore a series of recommendations by donors for donors: a hands-on guide to making the most out of your philanthropy.

Start early

The best moment to start giving back is now. "Setting up my foundation was like setting up a company. I needed to learn about the market, experiment, make mistakes and readjust my strategy," one donor from Germany remarked recently when asked about the key lessons learned during his "career" as a philanthropist. "I have never done anything in my life which was as challenging and as rewarding. In hindsight, there is only one thing I would do differently: I would start earlier."

Starting early enables you to design your philanthropic engagement according to your personal ideas and goals, to learn and adjust your activities over time. If you aren't sure what the best method or focus of your philanthropy might be, start small and increase your involvement and your investment gradually.

Bring the same diligence to your philanthropic activities as to your business

The best philanthropy is rooted in your personal beliefs and values, and implemented with the same care you apply in your business life. Active philanthropy needs a clear understanding of the problem you want to solve before you can identify where your help is most needed, how you can best use your individual resources and set yourself targets for what you want to achieve.

Assessment and analysis

When looking for organisations or projects to support, a market analysis is helpful to get an overview of the different approaches available to solve a problem. Who are the players already active in the field? How experienced are they? What kind of projects do they run?

Try to assess the projects and organisations you have identified in terms of their visions and goals, their resources, their expertise and track records, their approaches to learning and their relationship with other players.

To conduct this assessment, get in contact with the organisations directly, and for larger donations follow up with a site visit and conversations with the management and staff, but also with other relevant stakeholders.

Try to focus your activities as much as you can: often you can achieve more by concentrating on a few substantial and promising projects for a longer period of time than by supporting dozens of different activities every year.

Use a portfolio approach

Use a portfolio approach to philanthropy, especially if you have large sums of money to invest, and if you are new to a field.

- Co-funding with other donors, especially peers that share your approach to philanthropy, allows you to learn from their experiences as grant makers and access their network of contacts to Civil Society Organisations (CSOs) and experts.
- Setting up long-term cooperation programmes with established high-quality CSOs helps you to learn from experienced grantees that implement projects on the ground. At the same time, large CSOs often act as intermediaries and can introduce you to smaller organisations in the field.
- A range of targeted investments that require a more hands-on approach can provide you with the opportunity to contribute more than money – your time, know-how and contacts can provide added benefits to the organisation and increase your learning experience about the field.
- Use all the resources you have available – which includes connecting the investment of your foundation's endowment to your charitable mission.

The advantages of using the portfolio approach

This mixed approach to philanthropic investments has the advantage of helping you to understand the problem you are dealing with from many different angles, to benefit from the expertise and know-how of the partner organisations and to be adjustable to the time budget you have.

This is particularly important in Europe, where large families are increasing their giving but often find that there is a shortage of access to the right advisors and personnel – and where families want to keep their infrastructure for giving as lean as possible.

With the right partners, the portfolio approach, scaled over time, is a good way to invest professionally without making too many demands on your time or staff budget.

Establish a relationship of trust and mutual respect with your grantees

Successful projects are usually based on relationships where donors and grantees appreciate each other as equal partners.

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While the donor contributes money, time, contacts and entrepreneurial know-how, the CSO usually is an expert in the field it is working in. Start your partnership by defining common goals and milestones, and help the organisation achieve those by investing not just in programmes but also in their organisational capacity.

Establish an atmosphere of trust and open communication, which encourages the CSO to share all relevant information on the progress of your joint project.

An example of this is when a donor from Scandinavia received an email from an organisation he funded about a project that had not gone according to plan. The organisation offered to refund the money and added a list of measures undertaken to prevent the same situation from happening again.

Not only did the donor get on the next plane to visit the organisation, but he also gave the organisation additional support for internal capacity building – and the relationship between him and the organisation ended up being greatly strengthened through the experience.

Involve other family members and discuss your mission

Involve your children as early as possible. Philanthropy provides families with a platform to define, express and share the family's values and principles beyond the business per se.

Family discussions around the mission and purpose of the foundation, projects to be selected and grants to be evaluated can bring a sense of cohesion and joint effort to the table that strengthen the family as a whole.

Philanthropy lets young family members enhance their human, intellectual and social capital, which experts such as Jay Hughes consider a key ingredient of successful families.

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An involvement in philanthropy also helps to keep those young family members that have not been selected for or opted out of a career in the family business stay connected to the family and family business. This is especially important in those countries that have a strong tradition of family-owned business and where family cohesion becomes particularly important in multigenerational families.

Have fun

"Philanthropy is like a virus," a donor from France remarked recently. "Once you see how much you can achieve, you just never want to stop." The vast majority of donors would agree that philanthropy is both rewarding and stimulating.

A philanthropist interviewed for a study on German donors conducted by the Bertelsmann Stiftung in 2004 said: "I can move a lot with comparatively small amounts of money, I can bring joy into people's lives, create happiness. It is great fun to use my resources to help others to develop."

So while philanthropy might sometimes seem hard work, don't forget to enjoy the rewards of your efforts!

Strive for excellence and readjust your strategy

To achieve the maximum impact possible with your involvement, check your goals from time to time, keep records of what you have achieved and try to find out together with your partners and your grantees why some things worked well whereas others didn't.

There are no quick wins in philanthropy. To achieve a real measurable impact can take years – as problems keep shifting, solutions have to be adjusted and refocused.

Active philanthropy needs passion and patience. But, as the playwright Molière once said, "The trees that are slow to grow bear the best fruit."

Measuring the impact of philanthropic activities is sometimes complicated and costs time and money – but both are well spent if it can help you to increase the impact of your future projects.

Challenging times

According to a number of studies, philanthropists are still facing quite a few challenges when trying to implement their vision as a donor.

Among the most frequently cited areas are the challenge to find experienced advisors who can help philanthropists with setting up the infrastructure and selecting projects or organisations that fit their objectives. Equally, donors would like to get help with measuring the impact of their work.

While philanthropy is increasingly integrated in the wealth planning of large families, legal, financial and philanthropic advisors should work more closely together to help clients use their money in the best way possible: to create extraordinary value for the beneficiaries – and the clients themselves.

One donor summarised what's at stake by saying: "A lot more people would get involved if they knew how to do it." ■