MORE THAN MONEY

A Covenant of Federation Philanthropic Effectiveness

BY CHARLES (CHIP) EDELSBERG, PH.D.
Vice President, Jewish Community Federation of Cleveland

The Jewish Community Federation of Cleveland expends a great deal of effort to use other people's money — your money — efficiently and effectively to address a variety of needs in the Jewish community.

In today's competitive marketplace, we cannot afford to be satisfied with how we have done our business in the past, even if we have done it well. Our society as a whole, and our donors in particular, expect accountability and more effective management. . . . More effective management means that as techniques and disciplines of management are proven in the field. . . . We must incorporate them into our Federation and be prepared to change the way we are organized, the way we make decisions, and the way we communicate.

Tim Wuliger, Board Chair
Jewish Community Federation of Cleveland
101st Annual Meeting, December 5, 2004

Jewish community federations enjoy an unparalleled 100-year history as trusted depositories for annual contributions of philanthropic resources. Yet, a century of success in annual campaign transactional fundraising cannot obviate the need for intensive efforts to develop much more highly participative forms of philanthropy. Similarly, just as campaign achievements are a necessary but insufficient means of raising funds to meet the system's needs, the Jewish federation's hard-earned reputation as a safe, trustworthy Jewish community chest is now inadequate to satisfy growing expectations of increasing numbers of contemporary donors (Edelsberg, 2004). Indeed, grantees themselves are asking to be held to higher standards because of the sector-wide realization that "no cause is worthy enough to justify a gift that is not making a truly positive difference in the lives for whom it is intended (Streeter, 2001, p. 11)." Furthermore, it costs money both to develop federation resources, as well as to give them away (Litman & Karen, 2005; Siegal & Yancey, 2003).

Federations raise funds and build community. They also engage in grant making — as much as $3 billion of it, system wide, in any given year. The challenge to federations is this: Today's donors demand accountability, seek value, and expect performance. In other words, federations need to become philanthropically effective organizations.

Effective philanthropy is an approach to raising, stewarding, and granting funds that relies on transparency and accountability plus the measured advancement of mission to achieve its purpose. Effective philanthropy for federations is grounded in partnerships with beneficiary agencies, a key component of which is the measurement of outcomes achieved with funds granted to projects deemed to hold the greatest promise for producing communal benefit. Federations are best served when they balance their relentless pursuit of resources with resolute efforts to demonstrate results.

THE CONCEPT OF VALUE

Philanthropic effectiveness is all about creating value for society. Porter and Kramer's seminal 1999 *Harvard Business Review* article (p. 192) articulates a rationale for foundations' value-creation activity:

> Not enough foundations think strategically about how they can create the most value for

> society with the resources they have at their disposal. Little effort is devoted to measuring results. . . . If foundations are to survive and thrive in the new century, these attitudes and practices must change. True, foundations occur by the generosity of private individuals. But compared with direct giving, foundations are strongly favored through tax preferences. . . . That is why we look to foundations to achieve a social impact disproportionate to their spending. We look to them to create real value for society.

Porter and Kramer persuasively argue that creating value through effective philanthropy is not only an opportunity but also an obligation for foundations. Their proposition works like this: For every $100 donated to charity by the donor, the charitable beneficiary receives the full $100, the donor gets a 40 percent tax deduction for the gift, and the government receives nothing. In contrast, the $100 given to the foundation typically results in $5.50 of use by the charity once the payout from the gift begins. At a 5.5 percent spending rate, it takes 100 years for the full social value of the $100 charitable donation to be realized — at the expense of the government being able to use the entire $100 for social benefit in just one year.

Value is a tricky variable in the philanthropic effectiveness equation. It is an ambitious goal for any philanthropist or philanthropic entity to measure. However, valid reliable metrics are hard to come by in the social world (Frederickson, 2001). Foundations are, at this moment in history, not subject to strict scrutiny by either public regulation or the marketplace. In fact, there is no market measure that determines whether foundations spend their funds effectively (Raymond, 2004). Yet, Porter and Kramer make a convincing argument for how foundations can create value, either by enhancing the desired social benefit for a targeted client group or by achieving an equivalent benefit for those clients with fewer dollars, purchasing social benefits from the organizations they support. Specifically, foundations create value by selecting the best grantees, signaling other funders, improving the performance of grant recipients, and advancing the field's state of knowledge and practice (Porter & Kramer, 1999, pp. 123-125).

Federations are not private foundations, nor technically speaking are they community foundations. However, there is an extraordinary amount of foundation-like activity in federations, and this type of activity is becoming increasingly pervasive in the system. Certain federation subsidiaries and separately incorporated Jewish community foundations are in fact already steeped in traditional forms of foundation grant making. In addition, in their allocation of campaign dollars to beneficiary agencies, federations clearly aspire to achieve the value propositions Porter and Kramer describe.

For many contemporary funders, ends, performance, and value creation are ultimately more important than the means by which results are achieved. Frankly, federations' abiding commitment to process too often collides headlong with a new, donor-driven agenda that requires federations to focus on outcomes, efficiency, and effectiveness.

FEDERAL, FUNDER, AND GRANTEE PRESSURES FOR PHILANTHROPIC EFFECTIVENESS

If the Porter and Kramer position on effective philanthropy is not persuasive enough to attract our attention, Congressional scrutiny should. There is mounting pressure at the federal level presaging greater regulation of the field (*Foundation Accountability and Effectiveness*, 2002). At issue is the fundamental question of whether foundation-funded project outcomes and impacts justify the privileged and heavily protected tax status that foundations historically enjoy.

Peter Frumkin (2004) of the Hudson Institute argues that foundation philanthropy is "quietly in the midst of a crisis" (p. 3). Frumkin writes, "At the core of the angst

gripping funds are two complex and enduring issues that have confronted foundations of all kinds: effectiveness and accountability (p. 6)." As he points out, no one would suggest, given the choice between effectiveness and ineffectiveness, that foundations would voluntarily choose the latter. Federations, Mark Kramer observed in a recent conversation, "will not lose points by demonstrating effectiveness." However, there is more than a straw man argument to make here. Federations need to acknowledge the strong and mounting donor sentiment that accounting for effective use of donated dollars is critical to its mission. Younger funders are particularly vocal about matters of effectiveness and impact. They often define themselves as "investors" and are every bit as interested in hard data on grant outcomes and results as they are in stories of grantee success (Grace & Wendroff, 2001).

Federations would do well to recognize that the system's prevailing fundraising mission, ethos, and culture create a standard of money metrics that fails to satisfy and motivate contemporary funders. Such measures as numbers of new and lapsed campaign donors, size of individual gifts, card-for-card percentage increases in giving, and total dollars raised in and of themselves do not inspire donor trust or engagement. Complementary to tzedakah in federation mission, however, is tikkun olam. In its grant making, federations have an opportunity to measure social investments as an instrumental means of carrying out their mission to repair the world. The spirit in which that work should occur is one of philanthropic effectiveness.

Robert Egger (2004, p. 162). makes the case as follows:

> From now on, giving isn't enough. Philanthropy has to take itself to the next level by demanding results from what's given and taken. We've already been down the road of using money as a metric. Charity for the 21st century is about the ways in which we use money — and other resources to get the maximum long-term results in whatever or whomever we're trying to help. If the 20th century was all about bucks, the 21st century has to be about what kind of bang we can get from these bucks.

PHILANTHROPIC EFFECTIVENESS IN THE JEWISH WORLD

There is little doubt that effective philanthropy is on the minds of Jewish communal donors. Philanthropist Michael Steinhardt (2004), for example, states flatly that a "fundamental difference between us [referring in particular to Rabbi Eric Yoffie and the Reform movement's approach to philanthropy as compared to Steinhardt's] is the principle of accountability." Steinhardt states further, "Were the [Jewish denominational] movements willing to institute higher standards, then we [Jewish mega funders] would be willing to invest seriously with them."

In fairness, it is worthwhile noting that modest research exists that suggests that donors do not actually care about performance metrics (Cunningham & Ricks, 2004). Some funders and researchers are uncomfortable with a business analysis, arguing that it is fundamentally flawed because the "realities of social action and social change lend themselves only in a very clumsy way to the tidy work of numbers and bottom lines (Sievers, 2004)." Mark Kramer reported to me that the Center for Effective Philanthropy has had discussions with nearly 500 community foundation-affiliated funders, of whom approximately 80 percent did not truly care about effectiveness.

Kramer's experience notwithstanding, there are a plethora of Jewish philanthropists who talk passionately about philanthropic work in performance terms. Such funders as Steinhardt and Morton L. Mandel truly believe that what cannot be measured cannot be managed. Much of the Mandel Foundation grant making is in fact "evergreen," a style of grant making that requires that foundation trustees and staff review both grantees' performance and the foundation's own effec-

tiveness annually.[1] Grantees commit to demonstrate and to document project outcomes each year, and the foundation in turn holds itself accountable for grant making that reflects careful attention to its own effectiveness. Steinhardt claims, "Without rigorous evaluation of our initiatives performed by outside observers, we have no way of knowing whether our efforts are effecting true change." David and Inez Myers Foundation President S. Lee Kohrman (who is also president of the Myers-JDC Brookdale Board of Trustees) states succinctly, "The Myers Foundation does not 'do charity.' We don't need to make our trustees feel good. This foundation's grants are social investments. We want to make change in the world (2005)."

Kohrman is among a growing number of Jewish philanthropists who argue that Jewish philanthropy actually distinguishes itself in its moral imperatives, among the strongest of which are obligations to be both accountable and effective.[2] The contention here is based on the extraordinary value-laden traditions of chesed, tzedakah, and tikkun olam. Tim Wuliger (2004), then president of the Cleveland federation, translated these traditions in this way: "Accountability means that when decisions are made about using donors' funds, donors are entitled to know clearly and promptly what the decisions were, the process used to make the decisions, when they will be carried out, and how effectively they accomplished their purpose."

The secular community certainly appreciates the profound nature of our traditions: "This understanding of charity upholds the dignity of the person in need and has little to do with the more popular understanding of charity that suggests magnanimity or a generous heart. . . . [Rather] it has a result in mind and has little to do with the intention of the donor" (Streeter, 2001, p. 9).

Jay Kaiman, community liaison for the Marcus Foundation, asserts that Jewish leaders in the organized community too often present ideas that are unappealing to major funders because of a lack of focus on results: "We're outcome oriented, and we give to programs that have outcomes" (cited in Dettelbach, 2004). Noted social psychologist and Mandel Foundation professional Bethamie Horowitz (2004) explains that federations are having difficulty engaging funders at the institutional level because funders using "executive judgment in their own lives are not likely to eagerly turn over the money to a communal allocation process that claims they know better, particularly given the kinds of analysis they are used to seeing in business are not being carried out in Jewish communal life." Observes Streeter (2001, p. 21), "Sentiments for better performance in charitable activity is growing. It is becoming increasingly difficult to justify charity by an appeal to good intention of the funders and service providers or a show of numbers of people served. People want to see a charity's measurable impact."

ASKING THE RIGHT QUESTIONS

Federations can begin assessing their philanthropic effectiveness by asking three deceptively simple questions: What are our critical goals? How are we doing? What have we accomplished? Federations will need to hold themselves to the same standards to which they expect grantees — especially agencies that receive annual campaign allocations — to conform. They will need first to create and to cultivate a culture of measurement in which funds raised are complementary to the work of describing and determin-

[1]Morton Mandel is the president of the Mandel Supporting Foundations of the Jewish Community Federation of Cleveland. These three foundations (of brother Jack N., Joseph C., and Morton L. Mandel) work harmoniously in their grant making.

[2]S. Lee Kohrman has made numerous statements to Myers Foundation Trustees on the "social investment" style of Myers grant making. Mr. Kohrman is emphatic about the Jewish Community Federation of Cleveland's commitment to effective philanthropy: "Cleveland has chosen the Joint as its service arm outside the U.S. because of its efficiency, transparent accounting and reporting, and its overall performance at standards justifiably expected by responsible donors" (2005).

ing what goals have been achieved in the investment, management, and use of funds. In this scenario, federations would immerse themselves in more purposeful monitoring of funds allocated from the annual campaign and granted from endowment funds and supporting organizations. This calls for studying significant allocations and grants to see whether grantees achieved the stated project outcomes. On a broader level, *federations would systematically examine their philanthropic effectiveness, beginning with a more penetrating substantiation of the basis on which community funding priorities are determined. They would conduct a thorough, open, and well-communicated annual review of their overall performance in the raising of funds, stewardship of resources, and results realized in the funding of grantees.*

Such diverse funders as the California Wellness, Casey, Hewlitt, Kellogg, Lyndhurst, McKnight, and Robert Wood Johnson foundations and the Wallace Fund have undertaken path-breaking work in measuring foundation philanthropic effectiveness (Ostrower, 2004a[3]). The Partnership for Excellence in Jewish Education, birthright israel, and the Jewish Health Care Foundation of Pittsburgh (Prager, 1999[4]) are among the major Jewish communal enterprises in which principles of effectiveness pervade grant making. Although approaches to describing and documenting philanthropic effectiveness are distinct (Ostrower, 2004b), each of these funding organizations seems to accept the Porter and Kramer proposition that essential elements of effectiveness include the following:

- clarity of organizational purpose and mission focus
- articulated theories of change for individual projects
- fiscal accountability
- efficient operations
- organizational transparency
- grant monitoring
- outcome assessment of grants
- knowledge assessment (what is learned in the grant making by funder and grantee alike)

THREE INITIAL STEPS IN DEMONSTRATING PHILANTHROPIC EFFECTIVENESS

This business of effective philanthropy cuts across three levels of federation activity: evaluating individual grants, describing more explicitly how it decides to grant funds, and working closely with grantees to build value through results-oriented philanthropy.

The first and most easily accessible realm is the monitoring and evaluation of its individual grants. Grant making is a major function at every federation in the country (even if it occurs entirely in the form of campaign allocations). In the independent sector, project and program evaluation is generally considered to be a given in most grant making of any meaningful amount (Walker & Grossman, 1999[5]). There is no evidence, however, that evaluation has a firm foothold as a common practice in the federation system. In addition, although it is obvious, for example, that a social services project, a social action initiative, a curriculum innovation in a day school, or a capital project each requires different approaches to evaluation, each also necessitates the expenditure of funds and the application of professional expertise if its success is to be measured.

Federations as a rule neither budget significant dollars nor routinely hire trained personnel to conduct grant evaluations (Litman & Barth, 2005), although there are notable exceptions. Jewish foundations that operate independently from their local federations profess to do a good deal of project evalua-

[3]This report provides an overview of so-called effectiveness frameworks and includes data on a survey of 1,192 foundations.

[4]This is among the first and most provocative pieces published on philanthropic effectiveness in the Jewish communal world.

[5]Walker and Grossman's (1999) discussion of outcomes and philanthropic effectiveness is particularly thoughtful.

tion (*Contact*, 2004). Projects created by mega funders — birthright Israel is an outstanding example (Saxe et al., 2004) — dedicate proportional resources to evaluation. International projects in which federations partner – Parents and Children Together (PACT) is perhaps the preeminent in this regard — also feature thoughtful evaluation plans underwritten with meaningful dollars and executed by professional evaluators.

Thus, models already exist in the system in which philanthropic effectiveness is displayed through rigorous grant evaluation. The challenge is to make this practice a standard one. The reasons for doing so are to (1) to assist grantees in spending precious grant dollars judiciously, (2) to assure contributors that their donations are granted to projects that use funds productively, (3) to enhance the likelihood that target beneficiaries in fact benefit from the funded service or program provided, (4) to continue being successful in raising the significant dollars the system requires to meet current and future needs, and (4) to capitalize on successes as well as to learn from social investments that miss their mark.

What we are seeing in the field is a pronounced shift from intention-based charity to investment-based philanthropy. Funders, particularly next generation and entrepreneurial philanthropists, clamor for a focus on performance. They expect the federation to work with grantees to determine whether funded projects produce outcomes and results.

To measure their philanthropic effectiveness, federations need to describe more explicitly how they reach decisions to allocate and grant funds and on what basis they make awards. Federations then should account for the ways in which grantees achieve desired outcomes, as well as analyze situations in which unrealized or unanticipated goals characterize the funded project.

Federations are well positioned to measure their philanthropic effectiveness. Around the country, they enjoy excellent relationships with donors and grantees alike. Volunteer leaders, working together with trained professionals, can ensure that dollars raised in annual campaigns and funds contributed to donor-advised vehicles and supporting organizations are managed with full and open disclosure. Investment tactics, strategies, and performance should be reported broadly and available for public scrutiny. Granting funds from the campaign, philanthropic and federation endowment funds, and supporting organizations creates opportunities for funder and grantee interaction that will advance the dynamics of effective philanthropy. At each point in these interactions there is the opportunity to deepen donors' involvement with the federation and to enliven the spirit of mutual responsibility the federation and its grantees have to one another for the stewardship and effective use of funds.

Federation unrestricted endowment funds and its larger supporting organizations can commit to be a partner with selective grantees to build value together through results-oriented philanthropy. This represents a third level of activity for the federation that takes on an agenda of philanthropic effectiveness. A growing array of funders indisputably seek results from the dollars they contribute. They are restless contributors who bring to their philanthropy a sense of urgency commensurate with that conveyed to them by prospective grantees. There are palpable signs that this impatience has spread throughout the federation world. If so, it is in our self-interest to ask the grantees whom we fund to begin to expect concurrently that we will demand more of ourselves. "As charitable organizations are called upon to give greater account for their social impact than in times past. . .they are realizing that productivity matters to the suppliers of their resources" (Streeter, 2001, p. 22).

A NEW COVENANT

Jewish community federations are among the most successful fundraising organizations in the entire not-for-profit world. However, the amount of dollars raised and the

metrics of money alone will not sustain the system. Federations in the 21st century will be as much about meaning as money, as concerned with results as much as with resources, and be held to higher standards of both efficiency and effectiveness similar to what they have imposed on their beneficiary agencies. The stakes are high, as Cleveland Federation president Tim Wuliger (2004) notes: "Successful organizations which do not seek to change or worse yet, have erected impediments to change, are the successful organizations which have begun to fail."

We have a new covenant to create. Funders are asking the federation to develop an architecture of tzedakah that produces blueprints for the transparent management of bountiful philanthropy. Contributors who entrust federations with their donations and philanthropic assets expect that the federation will make a demonstrable difference in the world with their grants. The federation faces an extraordinary opportunity to strengthen abiding bonds with loyal donors and to enter into authentic relationships with all funders through a sacred commitment to philanthropic effectiveness.

ACKNOWLEDGMENTS

I am indebted to Michael Bennett, Marvin Cohen, Mark Kramer, and Jeffrey Solomon for their critical reading of a draft of this article. I appreciate their comments and unique insights while taking full responsibility for its content.

REFERENCES

Contact. (2004, Summer). Special issue: Measurement and accountability in the Jewish world, *6*(4).

Cunningham, Katie, and Ricks, Marc. (2004, Summer). Why nonprofits use metrics to show that they are efficient. But what if donors don't care? *Stanford Social Innovation Review*.

Dettelbach, Cynthia. (2004, January). Venture philanthropists offer wake-up call for Jewish fund raising. *Cleveland Jewish News*.

Edelsberg, Charles. (2004, Winter). Federation philanthropy for the future. *Journal of Jewish Communal Service*, 31-38.

Egger, Robert. (2004). *Begging for change: The dollars and sense of making nonprofits responsive, efficient, and rewarding for all.* New York: Harper Collins.

Foundation Accountability and Effectiveness. (2002, Fall). Aspen: Aspen Institute Nonprofit Sector Strategy Group.

Frederickson, H. George. (2001, March/April). First there's theory. then, there's practice. *Foundation News and Commentary*, 37-41.

Frumkin, Peter. (2004). *Trouble in foundation land: Looking back, looking ahead.* Indianapolis: Hudson Institute.

Grace, Kay Sprinkel, and Wendroff, Alan L. (2001). *High-impact philanthropy: How donors, boards, and nonprofit organizations can transform communities*. New York: John Wiley and Sons.

Horowitz, Bethamie. (2004, August). Trend spotting: Managing leadership. *The Forward.*

Kohrman, S. Lee. (2005, March 25). *Cleveland Jewish News.*

Litman, Sacha, and Barth, Karen. (2005, February). *Federation planned giving and endowments economics study*. New York: United Jewish Communities.

Ostrower, Francie. (2004a). *Attitudes and practices concerning effective philanthropy.* Washington, DC: Urban Institute Center on Nonprofits and Philanthropy.

Ostrower, Francie. (2004b). *Foundation effectiveness: Definitions and challenges.* Washington, DC: Urban Institute Center on Nonprofits and Philanthropy.

Porter, Michael E., and Kramer, Mark R. (1999, November/December). Philanthropy's new agenda: Creating value. *Harvard Business Review*, 121-130.

Prager, Dennis J. (1999, November). *Raising the value of philanthropy*. Pittsburgh: Jewish Healthcare Foundation.

Raymond, Susan U. (2004). *The future of philanthropy: Economics, ethics, and management.* New York: John Wiley and Sons, Inc.

Saxe L., Kadushin C., Hecht S., Rosen M. I., Phillips B., & Kelner S. (2004, November).

Evaluating birthright israel: Long-term impact and recent findings. Waltham, MA: Maurice and Marilyn Cohen Center for Modern Jewish Studies, Brandeis University.

Siegal, Dan, & Yancey, Jenny. (2003). Philanthropy's forgotten resource? Engaging the individual donor. Mill Valley, CA: New Visions Philanthropic Research & Development.

Sievers, Bruce. (2004, January). The Emperor's new clothes. *Stanford Social Innovation Review.*

Steinhardt, Michael. (2004, January 23). Crisis or complacency? *The Jewish Week.*

Streeter, Ryan. (2001). *Transforming charity: Toward a results-oriented social sector.* Indianapolis: Hudson Institute.

Walker, Gary, and Grossman, Jean Baldwin. (1999, April). Philanthropy and outcomes: Dilemmas in the quest for accountability. *Public/Private Ventures Brief.*

Wuliger, Timothy F. (2004, December 5). Board Chair's remarks. Annual Meeting of the Jewish Community Federation of Cleveland.