



# Criteria for Philanthropy at Its Best<sup>®</sup>

Benchmarks to Assess and Enhance Grantmaker Impact

# Acknowledgements

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## PREFACE

# Challenging Grantmakers to Strengthen Communities

### WHY THESE CRITERIA? WHY NOW?

Our nation is at a critical moment. The economy is in crisis, the private sector is in turmoil and the civic sector already is feeling the negative spillover effects. But, as is true of all crises, this moment presents philanthropy with an opportunity. As White House Chief of Staff Rahm Emmanuel said recently, “You never want a serious crisis to go to waste, and what I mean by that is an opportunity to do things that you didn’t think you could do before.” The current challenges present grantmakers with a chance to critically analyze persistent problems that have been ignored for too long. These difficult decisions and choices now have become urgent issues.

A crisis of this level compels us to consider new, sometimes radical, solutions. Americans recently elected the nation’s first African American president, reminding us all that our country is unique. It’s one premised on opportunity, progress and constant change. Yet, as we celebrate this historic moment, our public and private sectors are engaged in critical self-analysis and reconsidering their practices to seek out bold solutions. The time is now for philanthropy to do the same. Grantmakers, their nonprofit partners and communities nationwide must heed this call and consider altering current norms and practices significantly. Now more than ever, it’s vitally important for innovative and rigorous self-assessment to ensure that the civic sector is part of the solution to the pressing issues we face as a nation. And that’s exactly why our Criteria for Philanthropy at Its Best is especially needed at this time.

The private, public and civil society sectors all contribute to nurturing the public good. Government is obliged to protect its citizens and provide services

to those in greatest need. Private enterprise provides jobs and the economic engine that fuels our nation. Civic sector organizations—including both institutional grantmakers and non-grantmaking nonprofits—play a crucial role in improving lives and strengthening communities, often filling a void where government and free enterprise fail to adequately meet public needs. As the public and private sectors reassess their institutional practices, grantmakers must do so, too. We need to ensure that foundations remain relevant and maximize the impact of their work, which supplements the other sectors in important ways.

Now is the moment when opportunity and need intersect in a way that is unprecedented in modern history. Current philanthropic practice accomplishes many needed and beneficial things, but philanthropy is not sufficient in its current form to play the kind of substantive role required to help solve the most urgent problems facing our nation and the world. Grantmakers simply are not delivering as much social benefit as they could or should be, raising the important question of why this is so.

Our sector never can be a substitute for either the public or private sector, but grantmaking institutions must do all that is within their power to ensure that the civic sector becomes the highest performing complement to government and free enterprise. But what, specifically, should foundations and other institutional grantmakers do to maximize their impact and best serve nonprofits, vulnerable communities and the common good? That is the central question this document seeks to answer. As the world focuses on meeting the current challenges, institutional philanthropy must ask itself some long overdue, perhaps difficult, questions. The National Committee for

Responsive Philanthropy (NCRP) has developed a set of criteria to provide grantmakers with the tools to do precisely that.

There's a popular but overused saying in philanthropic circles: "If you've seen one foundation, you've seen one foundation." People use that phrase to emphasize how different each foundation is from the next. Anyone familiar with the sector knows that there is, indeed, great variability among grantmaking institutions. But many people also use the phrase to deflect criticism, arguing that the unique nature of each foundation makes it impossible to compare one foundation to another or to hold grantmakers to any standards more rigorous than those that are within bounds of the law. But that's simply not true: comparison is possible and valid, provided that it is done appropriately and with sufficient flexibility.

Just as profit is the bottom line for the private sector, impact is the most important measure for the civic sector. A foundation serves the public good if it has impact on important societal issues. It is almost impossible, however, to examine each of the nation's more than 70,000 grantmaking institutions and determine the extent to which that foundation is enhancing the public good, creating positive social benefits or advancing the public interest. Our criteria offer a meaningful tool to begin addressing this very challenge. A foundation that meets the criteria is not guaranteed to have positive impact, but it is more likely to do so than a foundation that doesn't operate in ways consistent with the criteria.

Some grantmakers are being risk-averse while waiting out the financial storm, but in this time of crisis, philanthropy should do more, not less. Conscious analysis and inclusive discussions can help us address these challenging times. I don't pretend for a minute that this will be easy for anyone, but important choices almost never are. If we see this crisis as a genuine opportunity to confront difficult issues directly, our nation's grantmakers will emerge stronger and better equipped to serve our ever-changing world.

What differentiates an exemplary grantmaker from an underperforming one? What can a foundation do to improve its relevance to nonprofits, vulnerable communities and the public? These are the challenges we've attempted to address. It's my hope that the pages that follow will inform much needed discussions and help ensure that our sector truly is meeting its tremendous potential.

## DEVELOPING THE CRITERIA

NCRP just celebrated its 33rd anniversary. As the only independent watchdog of foundations and institutional grantmakers, one of our primary roles since our founding has been to bring the voice of nonprofits and the marginalized communities these groups often serve into deliberations about philanthropic priorities and practices. The criteria clearly and intentionally reflect that history and NCRP's values as an organization. We always have been uncompromising in holding the field to a high standard. The voices of nonprofits and of vulnerable communities too often are missing when grantmakers reflect on their practice. With these criteria, we're bringing back their voices.

Our vision is that philanthropy contributes in meaningful ways to the creation of a fair, just and democratic society. It does so by serving the public good, not private interests, and by employing grantmaking practices that help nonprofits achieve their missions most effectively. Philanthropy, at its best, also strengthens democracy by responding to the needs of those with the least wealth, opportunity and power.

To develop the criteria, we used an iterative process that involved rigorous research and literature reviews, original data analysis to understand current practices, and numerous rounds of discussions and debate among a group of about 50 people over the period of approximately 15 months. We intentionally did not use a broader process because we didn't want to produce a "least-common-denominator" set of criteria. Plenty of those already are available, but they clearly haven't solved some of our most persistent challenges. We wanted the end result to be a set of criteria that truly challenges grantmakers to strengthen communities. The people involved included the NCRP board of directors, our research advisory committee, staff, and a dozen or so external advisors.

## KEY CONCEPTS

The criteria focus on values, effectiveness, ethics and commitment. We focus on values because who benefits from philanthropy does matter. Effectiveness is important because grantmakers and their nonprofit partners need to maximize impact, regardless of what issues they're addressing. Our concern with protecting the public trust, ensuring compliance with the law and maximizing the social benefit of philanthropy led to criteria focused on ethics and commitment.

The concept that foundation dollars should be viewed as “partially public” dollars is woven throughout the text. The generous tax subsidies provided to donors and to foundations make the government and the public partners with philanthropists in pursuit of the public good. NCRP believes that foundation trustees are stewards of these partially public dollars. Especially now, donors need to understand that once the funds have been placed in a foundation, it’s not their money anymore.

Another key concept throughout the criteria is the idea of maximizing social benefit or impact. Everything we advocate for in this document is intended to generate the greatest amount of social good possible with limited philanthropic funds. Foundation spending is dwarfed by government spending, so it is especially important that grantmakers be strategic to maximize the community-wide benefits of their work.

Another theme that’s woven throughout many of the chapters is a call for grantmakers to rethink the issue of “credit.” What foundation doesn’t want to be able to say that it supported important work with demonstrable results? That’s only fair. But at the same time, it’s equally relevant to reconsider whether credit should go to only one grantmaker when many others supported the same work. NCRP believes that institutional philanthropy can benefit greatly from looking at “credit” through the lens of contribution rather than attribution. We’re all in this together and share many of the same goals.

## FLEXIBILITY AND LEADERSHIP

Philanthropy is nuanced and complex, but these criteria set concrete and measurable benchmarks. Some funders may view the criteria as overly prescriptive—but we don’t see it that way. The criteria were developed to highlight the most important issues in philanthropy and to challenge grantmakers to assess their current practices critically and determine if and how to change the ways they do business. Flexibility, courage and leadership are crucially important for these criteria to have meaning-

ful impact on philanthropic practice. This is particularly true in light of the current challenges our sector is facing.

To be clear, this is not a rankings system and shouldn’t be viewed as such. A foundation that meets eight of the 10 measurable benchmarks isn’t necessarily better than a foundation that meets

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only five. We recognize that there may be good reasons for a particular grantmaking institution not to live up to certain benchmarks we put forward. But the four criteria and the 10 associated benchmarks are, in our view, the most critically important issues for foundations to consider if they want to contribute to the common good to the greatest extent possible.

We intentionally haven’t created a scoring system to go along with the criteria, and we haven’t assigned relative weight or importance to the benchmarks. Additionally, there isn’t enough quality data available at this time for us to be able to rank or score foundations based on the criteria. And even if there were enough data available, ranking would be extremely difficult without creating perverse incentives to reward the wrong behaviors in some situations. The appendix lists what we call “field leaders,” or those foundations that we’re aware of and have access to information from that appear to meet or exceed the benchmarks. It’s important to understand when looking at these lists that we might have excluded a particular grantmaker not because it isn’t practicing exemplary philanthropy or even because it doesn’t meet that particular benchmark. It might be an outcome of data limitations—an important reason to view these lists as illustrative rather than exhaustive. Still, I think it’s important to highlight those grantmakers that we do know practice Philanthropy at Its Best, and it’s also

a reason we want to engage in dialogue with funders that believe they should be listed so we can acknowledge them in other ways.

Some grantmakers will find that the current economic crisis makes it challenging for them to live up to some of these criteria. But the financial crisis also makes the practices we recommend all that much more important. We also understand that smaller foundations, or foundations with particular trust restrictions, will find some of the benchmarks espe-

A criterion that seems challenging is a vital starting point for truly intentional and robust debate about why this is so; we want grantmakers to wrestle with these issues.

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cially challenging to meet. And here's where courage and leadership come into play. A criterion that seems challenging is a vital starting point for truly intentional and robust debate about why this is so; we want grantmakers to wrestle with these issues. It's our role as the sector's watchdog to push for a real transformation in philanthropy. We don't, however, intend to be dogmatic or inflexible in pursuit of compliance with the criteria.

Ultimately, it's up to the leadership of each institution to decide how it's going to operate and whether or not it makes sense to meet or exceed the benchmarks for each criterion. We've made what I believe is a compelling case for each criterion, and we've shown that the benchmarks are achievable by giving examples of grantmakers that already meet or exceed them. Foundation trustees, then, as stewards and protectors of the public trust, have the responsibility to consider what course of action they will take, and it is my hope that trustees and executives at foundations will engage courageously in vigorous discussions and debate about these important issues. These conversations will help each grantmaker clarify why it operates the way it does and will encourage examination of why certain practices are or are not consistent with a foundation's mission and with the broader public interests.

## REGULATION

Regulation, when crafted properly, is hugely beneficial to our society. It also is clear that deregulation and a lack of oversight can have disastrous consequences—simply consider the current economic crisis as an example. Former Federal Reserve Chairman Alan Greenspan stated in congressional testimony in October 2008 that he “made a mistake” in trusting that free markets could regulate themselves without sufficient government oversight.

It's no different for philanthropy. NCRP believes that regulation of grantmaking institutions is essential. Over the years, NCRP has engaged in efforts to influence the regulation of foundations, and we surely will be involved in such efforts again in the future. Foundations remain some of the

most loosely-regulated institutions in the country; this has both positive benefits and serious negative consequences. This particular document, however, is not a call for regulatory action on these issues. Instead, we view these criteria as central to informing meaningful self-regulation for foundations and other institutional grantmakers. If foundations don't do a better job of regulating themselves with integrity and rigor, and if more grantmakers don't demonstrate their relevance to nonprofits and marginalized communities by meeting the benchmarks set forth in this document, the likelihood of more government regulation of the sector will increase.

## HOW TO USE THE CRITERIA

Each chapter provides a compelling case for one of the criteria, citing the latest research and providing original new data in some cases. We put a tremendous amount of time and effort into ensuring that these criteria reflect the most current qualitative and quantitative analyses available to us. Various institutions and individuals will find value in the criteria and each will use this document in different ways.

As stated before, we hope grantmakers will find the criteria helpful in examining their work. There are discussion questions at the end of each chapter so

that executives and trustees can explore deeply how each criterion applies to their foundation. For example, a family foundation board might want to discuss one chapter at each of its next four meetings. Because we identify funders that currently meet or exceed the benchmarks we've established, grantmakers can compare their own practices to those of their peers. We also have an interactive online self-test so that foundations can measure their performance based on our criteria.

Journalists will find the criteria helpful when writing stories about foundations or other grantmakers in their communities. Often, journalists assigned to cover stories about philanthropy have little prior experience in the sector, so we hope that this will be a useful tool for them. In cases of suspected abuse, for example, a journalist can consult the ethics chapter to determine whether or not the suspected abuser has been following the recommendations or meeting NCRP's benchmarks.

Nonprofits will find much value in these criteria as well. We hope that grantees will use the criteria as a tool to empower themselves to raise critical issues in thoughtful ways with program officers and foundation leaders. The document is full of information that grantees can use to make compelling arguments to their funders about why they need support for their advocacy work or a multi-year grant, for example.

Policymakers, too, will find the benchmarks and the mapping of current practices informative when

considering issues related to philanthropy. The growing number of academic centers focused on philanthropy also surely will find value in this text.

And finally, NCRP will, of course, use these criteria for years to come in our work. We'll highlight grantmakers that exceed the benchmarks, and we'll criticize, when appropriate, funders that fall short. That's the role of a watchdog, after all. We're challenging grantmakers to strengthen communities and we believe that these criteria provide the right tools to do just that. Our goal when criticizing grantmakers is to maximize the net benefit of philanthropy to society, which is the bottom line for ensuring that our sector remains viable, relevant and sustainable.

As more grantmakers live up to these criteria in the coming years, they will increase their impact on important issues, enhance the public good and strengthen the public trust. This will benefit not only the whole nonprofit sector, but our entire society.



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# Criteria for Philanthropy at Its Best

## CRITERION I: VALUES

A grantmaker practicing Philanthropy at Its Best serves the public good by contributing to a strong, participatory democracy that engages all communities.

- a) Provides at least 50 percent of its grant dollars to benefit lower-income communities, communities of color and other marginalized groups, broadly defined
- b) Provides at least 25 percent of its grant dollars for advocacy, organizing and civic engagement to promote equity, opportunity and justice in our society

## CRITERION II: EFFECTIVENESS

A grantmaker practicing Philanthropy at Its Best serves the public good by investing in the health, growth and effectiveness of its nonprofit partners.

- a) Provides at least 50 percent of its grant dollars for general operating support
- b) Provides at least 50 percent of its grant dollars as multi-year grants
- c) Ensures that the time to apply for and report on the grant is commensurate with grant size

## CRITERION III: ETHICS

A grantmaker practicing Philanthropy at Its Best serves the public good by demonstrating accountability and transparency to the public, its grantees and constituents.

- a) Maintains an engaged board of at least five people who include among them a diversity of perspectives—including of the communities it serves—and who serve without compensation
- b) Maintains policies and practices that support ethical behavior
- c) Discloses information freely

## CRITERION IV: COMMITMENT

A grantmaker practicing Philanthropy at Its Best serves the public good by engaging a substantial portion of its financial assets in pursuit of its mission.

- a) Pays out at least 6 percent of its assets annually in grants
- b) Invests at least 25 percent of its assets in ways that support its mission