The Business of Philanthropy: A Primer

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> **"I have found that among its other benefits, giving liberates the soul of the giver."**
>
> - Maya Angelou

Your Philanthropic Journey

Whether you've been donating for years or are just getting started with your philanthropic efforts, there are numerous rewards - both tangible and intangible - that come with giving to worthy causes.

If you are a long-time donor, you no doubt recognize the many benefits of charitable giving, such as developing a sense of community and belonging, feeling connected to a cause or mission that resonates with your values, and gaining satisfaction from knowing that you've made an impact. Perennial donors have the added advantage of seeing measurable results over time, which can be incredibly fulfilling.

Even if you're new to philanthropy, you likely already know that giving to charity is beneficial in some way. Maybe you've witnessed firsthand how donating money or resources can have a powerful and lasting impact on the lives of recipients. Giving food or funds for critical meals to a charity, for example, can improve the culture, climate, and economic stability of the communities where that charity serves. In this way, philanthropy can also be a great way to break down social barriers, bring people together, and effect both real and positive long-term change.

Often, because philanthropy can be a creative and rewarding educational tool, experienced donors may want to get other family members involved in their philanthropic endeavors. When families come together to support a cause, it can be an incredibly meaningful experience for everyone involved. Coming together as a family gives the family a chance to discuss important family values, generates enthusiasm for causes that represent those values, and contributes to preserving the family's legacy and wealth. The act of sharing resources as a family is a great way to teach future generations the importance of giving while also instilling values of kindness and compassion. Philanthropy can give children a sense of purpose, create memories that last a lifetime, and develop leadership skills at an early age. What's more, when younger family members are engaged in philanthropy, they learn about money management and gain valuable financial literacy skills, which they often won't learn in their regular school curriculum but will definitely use as they enter the "real world!" No one is too young to start their philanthropic journey.

Whether you are a long-time donor or someone new to giving, there's a lot to know and learn about "the business of philanthropy" in terms of choosing the right nonprofit for your philanthropic gift. Because charities can make people's lives drastically better, it's important to choose the best nonprofit for that purpose.

When you have identified a nonprofit, it's important to conduct research on the organization and its mission, evaluate how useful their services are and how well they manage their finances, make sure their operational practices are compliant with relevant legal and tax regulations, and be aware of potential conflicts of interest. Additionally, you should consider factors like an organization's level of ethical concerns associated with the organization. All these points should come into play when deciding which nonprofit to give to ensure your philanthropic gift makes a lasting impact.

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Where to Begin

Philanthropic giving starts with making sure the mission, vision, and shared values are aligned amongst all involved in your giving. When your intentions for donating is clear, it's easier to select an organization or cause whose mission matches your values and goals. Additionally, understanding the motivations for donating can be beneficial when creating a plan of action and ensuring the best use of resources. Whether you are driven by monetary or moral objectives, setting specific goals can make sure that your efforts are directed toward meaningful results. Determining the scope of your giving can also help you to decide when to say no. For example, individuals and families can ask themselves: "What experiences have I/we had that have contributed to our successes or struggles?" "How do I/we want to show up in the community?" and "What will be my/our focus?" Before making any gift of your time, talent, or your treasure, take time to consider what you're trying to achieve. When your intentions are clear, your philanthropic efforts will be more effective and rewarding and will aid in strengthening your family's charitable impact and desired legacy.

The Cause That Matters Most to You

As a philanthropist, it's important to determine which causes are most important to you and align those with your values and priorities. Whether it's climate change, social justice, and/or education, deciding what causes matter to you can be a challenging and personal decision. Ask yourself important questions such as: "What are the issues I care deeply about?" "What do I want to accomplish with my philanthropic efforts?" "Where do I want to make an impact?" Some donors even consider causes that can be addressed through means beyond traditional grant-making, such as programs that are eligible for micro-lending, recoverable grants, impact investing, and program-related investments.

Even if your cause is clear, with over 1.4MM charities in the U.S. alone, it can feel overwhelming deciding which one is most closely aligned with your goals and positioned to make the greatest impact because of your gift.

When thinking about possible causes you would like to support, take some time to research a variety of them to make sure your donations will go toward the most successful organizations addressing those causes. By assisting with the organization's greatest need, you can be sure that your contributions have a positive effect. Learn about an organization's history and mission, research any relevant financial information, and consider their track record of successfully addressing potential issues for which they are trying to solve or improve. Additionally, take time to understand how your donations will be used, as well as where and when the funds will reach their intended destination. Understanding the intended effect of your gift will help ensure your philanthropic efforts have a positive impact.

To enhance your research efforts, seek out advice both within and outside of your network, speak with experts - whether through online news or social media feeds - who are focused on your areas of interest and consider attending events related to those areas of interest. You might also consult a philanthropic advisor who can further research the many nonprofits focused on the causes that matter to you most and provide valuable benchmarks and insights from other donors' experiences.

Due Diligence and What to Consider When Choosing a Nonprofit Recipient

With so many charities to choose from, it may seem like an arduous task to decide which organization is best suited to receive your support. A great place to begin to make your informed decision is by researching each organization and their mission statement, strategic priorities, and how transparent they are in sharing information. For example, the degree to which budget information, 990PF (tax returns for nonprofits) and other financial data is shared publicly can vary widely. By choosing to work with an organization that is open about their finances and spending, you can ensure your gift is utilized for maximum impact.

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The diversity and talent of an organization's leadership team, including the board, are of particular importance. Most donors want to see that the organization's constituency is represented - that is, decision-makers at the organization have a stake in the community it serves because of their lived experiences.

Pay attention not only to how organizations use donations, but to their track record in achieving promised results, as well as their approach to accomplishing their goals. For example, has the charity been successful in its past initiatives? Do they depend on and/or collaborate with entities with whom you also share values (i.e., government funding or political officials)? Are key stakeholders easily identifiable?

In addition to financial data reported to the IRS, or disclosed in audited financial statements, nonprofits may also report policies, procedures, or other internal information that can be helpful to a donor's decision-making. You may want to know whether an organization has a whistleblower policy in place for the staff, board, or others to detect potential internal or external fraud. Furthermore, knowing what percent of the board supports the organization through personal philanthropy may be helpful information to better determine their engagement. While many of these data points are self-reported, they can be as important as mandated information when considering the overall health of the organization. For example, viewing this information in a public setting can help donors gauge a nonprofit's willingness to share information, as well as the organization's dedication to these important details.

Most donors consider "impact" high on the priority list when deciding which charities to support. Considering how your donation will be used and if it can truly make a difference in recipients' lives is vital. While it may seem obvious, a charity's website can offer a lot - or not - about the impact donations like yours are currently making. Most nonprofits publicly share their track record for achieving results, including whether they are successfully implementing current and former initiatives. If a nonprofit doesn't share these types of records, you may want to find out why before choosing them.

The importance of fundamental research cannot be ignored. For example, when conducting a site visit, consider asking to speak to a member of the leadership team and/or a board member. As nonprofit board members, their responsibilities include knowing the organization's mission, purpose, strategic priorities, strengths, and financial needs, including fundraising objectives. Additionally, their commitment to the organization and willingness to meet with funders speaks volumes about the strength of the overall board and the organization as a going concern. Keep in mind that while most organizations are open to site visits - either virtual or in-person – it's important for you to be clear about the experience you are seeking (e.g., do you want to observe the operations or see the good work being done in person?) and limit any disruptions and/or follow-up reporting to what's necessary for you to make an informed decision. If you're seeking more time to assess the organization, consider volunteering to engage more deeply! Volunteering with a nonprofit and joining local and national donor networks - as well as community foundation workshops - are excellent ways to share best practices, feel connected to other like-minded donors, and assess the greatest needs of the communities in which they serve.

Finally, determine what type of donation you intend to make to the organization, and whether you're satisfied with how it will be measured. Consider whether you will contribute to the overall budget, or restrict the gift to a specific program, project, or capital campaign. Recently, many funders that typically make restricted gifts were asked to pivot during the pandemic and give toward general operating funds to support nonprofits whose needs, supply chains, staffing, and fundraising were significantly impacted for obvious reasons. Make sure you have a candid conversation about this process when you - the nonprofit - require more flexibility.

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Anyone Can Be a Philanthropist (and Enjoy the Joy of Giving)

If you're actively sharing your gifts with others, you're already a philanthropist - congratulations! However, when donating specifically to charities - whether you give directly, through a donor-advised fund, as part of your family's private foundation, or plan to make a charitable gift as part of your estate plan - you probably already know that there are rules associated with each method. For example, as chair of the grants committee for your family foundation, you may find joy from selecting deserving charities or interviewing potential scholarship students. However, as a foundation trustee, you may also have to comply with the foundation's governing documents, including by-laws, document meeting minutes, and perform other administrative and operational duties required for compliant grant-making. If those clerical tasks are not of interest to you, you likely need to identify another internal or external expert in managing private foundations to do the heavy lifting so you can focus on the part of giving that makes you happiest. Furthermore, be aware that no matter how you give, nonprofits will - at times - have other requirements that are subject to compliance and oversight, such as a "gift agreement," depending on the size and complexity of the gift.

Having an expert philanthropic advisor review these and other legal aspects of the gift can be tremendously helpful in understanding the obligations of both the donor and the recipient

Summary

Philanthropy can and should be a fun and rewarding experience! Helping others through your generosity is deeply satisfying and can lead to lasting relationships that bring joy to your life - all while contributing to something bigger than yourself.

And yet contributing to positive change comes with great responsibility. Increasing your philanthropic impact requires thoughtful planning and dedication. Considering what causes are most important to you, thoroughly researching prospective organizations, and keeping open lines of communication with those you choose to support are all mission critical to the philanthropic process.

Additionally, as a donor, you must think critically about the various ways in which you can help those in need and make sure your contributions have the most positive effect possible. Examining all the resources and ways in which you and your family can become more knowledgeable - such as engaging experts who work with families like yours - can be instrumental in better understanding "the business of philanthropy." Becoming a philanthropist and choosing how to donate may feel like a daunting task at times, but with a philanthropic advisor at your side to guide you along the journey, you'll be making an impact in no time.

For More Information

Please visit us online at **CallanFamilyOffice.com.**

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Recomended Resources

Books

- Philanthropy, Heirs & Values: How Successful Families Are Using Philanthropy to Prepare Their Heirs for Post-Transition Responsibilities by Roy Williams
- Generation Impact: How Next Gen Donors are Revolutionizing Giving by Sharna Goldseker and Michael Moody
- Ten Basic Responsibilities of Nonprofit Boards by Richard T. Ingram

Articles

- Stanford Social Innovation Review: "Unlocking the Potential of Open 990 Data" by Cinthia Schuman Ottinger & Jeff Williams
- Inc.: "8 Tips for Finding the Right Cause to Support" by Young Entrepreneur Council
- The Nonprofit Revolution: "How Individuals can Help With the Overhead Myth Smackdown" by Amber Smith
- Kiplinger: "How to Check Out a Charity Before You Donate" by Cameron Huddleston
- Forbes: "How To Choose The Right Philanthropic Advisor" by Kris Putnam-Walkerly
- The Chronicle of Philanthropy: "How to Unlock More Gifts: New Research Says Enhancing Psychological Well-Being Is Key" by Alex Daniels
- "Use Cases from Publicly Available IRS Form 990 Data" by Dorothy A. Johnson Center for Philanthropy

Apps (fun for kids, preteens, and young adults)

- ShareTheMeal
- DonorUP
- WISHLY
- Charity Miles
- WoofTrax

Websites

- **Better Business Bureau Wise Giving Alliance Standards (Give.org)**

Developed to assist donors in making sound giving decisions and to foster public confidence in charitable organizations. The 20 standards cover governance and oversight, measuring effectiveness, finances, fundraising, and informational materials.

- **Charity Navigator: Charity Ratings and Donor Resources (CharityNavigator.org)**

Helps millions of people take action and support the causes they care about by connecting them to the best charities that align with their passions and values.

- **GiveWell – Charity Research (GiveWell.org)**

Recommend a small number of charities that do the most per dollar spent.

- **CharityWatch (CharityWatch.org)**

Examine a charity's finances, governance, and effectiveness.

- **Candid (formerly GuideStar) (Candid.org)**

Designed for nonprofit organizations to show their commitment to transparency and willingness to communicate directly with stakeholders.

- **The National Center for Family Philanthropy (NCFP.org)**

Helps families realize the purpose and potential of philanthropy for meaningful impact.

- **The Center for High Impact Philanthropy – University of Pennsylvania (imapact.upenn.edu)**

The Center for High Impact Philanthropy (CHIP) is a trusted source of knowledge and education to help donors around the world do more with their giving. Founded in 2006 as a collaboration between the School of Social Policy & Practice and alumni of the Wharton School, it is the premier university-based center focused on philanthropy for social impact.

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Additional Websites

- **Council on Foundations (cof.org)**

The Council on Foundations is a nonprofit membership association that serves as a guide for philanthropies as they advance the greater good.

- **Center for Effective Philanthropy (CEP.org)**

CEP provides data, feedback, programs, and insights to help individual and institutional donors improve their effectiveness.

- **Exponent Philanthropy – Guiding Lean Funders (ExponentPhilanthropy.org)**

To amplify and increase the impact of lean funders by building an inclusive community where they can learn, connect, and collaborate.

- **21/64 – Next Generation Philanthropy (2164.net)**

Offering resources and services to individuals, families, businesses, foundations and federations in times of generational transition.

- **The Greater Good Science Center – University of California, Berkeley (ggsc.berkeley.edu)**

The Greater Good Science Center studies the psychology, sociology, and neuroscience of well-being and teaches skills that foster a thriving, resilient, and compassionate society.

- **The Center on Philanthropy and Civil Society (www.gc.cuny.edu/center-philanthropy-and-civil-society)**

The Center on Philanthropy and Civil Society is committed to strengthening civil society through education, research, and leadership training.

- **Council on Foundations (cof.org)**

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- **Giving Compass: Give with greater impact (GivingCompass.org)**

A one-stop shop to help individual donors learn about issues, get involved, and give to community-led change.

- **Lilly Family School of Philanthropy – Indiana University (philanthropy.iupui.edu)**

World's first school dedicated solely to the study and teaching of philanthropy.

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