The Giving Generation

By Elie Winninghoff

How the new philanthropists’ intellectual capital is changing society.
The Giving Generation

How the new philanthropists' intellectual capital is changing society.

By ELIE WINNINGHOFF  Barron’s Cover Story  Saturday, December 1, 2012

Unlike in days of yore, when folks waited until retirement before turning into tea-and-biscuits philanthropists, many newly wealthy Americans today are rolling up their sleeves and starting small- to medium-size charitable foundations when they are in midlife transition. Of the 80,000 family foundations in America, 39% are now in the hands of people aged 40 to 49, according to Foundation Source, a major provider of services to smaller foundations. These new philanthropists, the firm says, control a charitable war chest worth some $83 billion, roughly double the firepower of the giant Gates and Ford foundations combined.

When Page Snow, chief philanthropic and marketing officer at Foundation Source, started in philanthropy, the field was heavily dominated by the elderly. "Now it has become a part of this generation's identity," she says.

It's not the size of the philanthropic assets in question that makes this age group so important; it's the little-seen intellectual capital its members are building that will be so crucial to tomorrow's society. As these 40-year-olds keep working, they continue to build their foundations' endowments, learning by mistakes and fine-tuning their philanthropic objectives as they go. In this way, a philanthropist -- as exemplified below, in the story of Seattle's Shaula Massena -- might evolve during this midlife period from a fairly passive check writer to a hyperfocused investor looking for investments that directly tackle society's ills.

They are, in short, building efficient and effective platforms that will magnify the impact of their late-in-life largesse 20 or 30 years from now, traditionally that time in the hourglass when individuals let the largest amounts of charitable dollars flow from their estates. For them, the philanthropic sector has become a kind of research-and-development laboratory for workable ideas that can bridge deep social problems with a modernizing economy.

Already, there are hints that this sea change in demographic giving patterns is rippling through society, in ways big and small. Consider, for example, the 2008 financial crisis and its immediate aftermath. Foundation Source recently conducted an in-depth study of 519 family foundations with less than $50 million in assets during the 2008- to-2011 period. The firm noticed that the philanthropists in their 40s, overseeing 80 foundations in the study, stood out as a group, not for cutting back their commitments as the value of their portfolios got hammered, but rather for digging deeper into their pockets to make up the shortfall. Remove one outlier from the 80 foundations studied, and the 40-year-olds increased their giving 15% between 2008 and 2011.

But the midlife generation is also at the vanguard of another change rocking the once-staid philanthropic sector. As middle-aged givers came on to the scene in significant numbers, "the whole giving world has shifted from an extractive model where donors are solicited to philanthropists discerning for themselves how they want to deploy their capital in the service of others," says Glen Macdonald, president of the Wealth and Giving Forum.

Paul Schervish, director of the Center on Wealth and Philanthropy at Boston College, says this group as a whole sees philanthropic success as coming with new "processes, new techniques, new services, new products -- and not only introducing them, but creating them." There will always be the check writers -- and bless them -- but this more entrepreneurial approach will eventually become the new "traditional" philanthropy, Schervish says.
So here, below, we profile five philanthropists who represent the diversity of this generation that's making its way through the in-between years. Look at our Penta five as the nonprofit counterparts to the small- and medium-size businesses that are the real backbone of the American economy. They may not grab headlines like Bill Gates, but they are quietly reshaping 21st-century philanthropy.

Shaula Massena wants to empower the poor with loans, not grants.

SHAULA MASSENA
Age: 42
Vehicle: The Massena Foundation
Location: Seattle

"You can't grant someone empowerment and self-respect," says Shaula Massena, expressing a worldview once espoused by Margaret Thatcher. "Grants create dependency, not independence. If I want to empower someone, it has to be [through] an investment."
Massena invests in underprivileged entrepreneurs, and it took a while to get to this point. She and her husband, Darrin, retired in 1999 as young millionaires from Microsoft, where she had worked as a software-design engineer. Only 30 at the time and wanting to do something meaningful with her windfall, Massena began hanging out with Social Venture Partners -- a Seattle-based group for engaged philanthropists -- and writing checks for grassroots community organizers like the Northwest Women's Law Center and the Welfare Rights Organizing Coalition.

At the Bainbridge Graduate Institute, an independent business school offering an MBA on "sustainability" business models, Massena studied how business can be an agent for social change. When she completed her studies in 2008, the line between her charitable check-writing and her for-profit angel-investing began to blur -- and she had her epiphany.

"Both my grants and my equity investments ended up as tax write-offs," she says, "and I realized that from a tax perspective, these equity investments are effectively grants. The financial result is the same. The huge difference is the power dynamic and the quality of the conversation." In other words, entrepreneurs talk straight to their backers, while folks receiving grants -- wary of biting the hand that feeds them -- often do not.

Her first direct philanthropically motivated investment was an inflation-pegged loan to Teamwork Services Peninsula, a housekeeping cooperative, to be paid back in installments once it made a profit, which began to happen just three years later.

Encouraged, Massena converted 100% of her foundation's assets to low-return impact investments that align with her social mission. That means a focus on community banks, credit unions, and loan funds that provide capital to underserved minority and low-income folks.

Among the institutions she backs: One PacificCoast Bank, Express Credit Union, and Seattle Economic Development Fund. They finance small businesses that do everything from making bathroom tiles out of recycled glass to growing oysters. Says the willowy brunette: "The best thing I can do with my dollars is invest in a way that happens to slowly erode my foundation's capital, rather than spend it all on grant-making."

Recently, Massena co-founded HUB Seattle, a social-enterprise incubator that houses groups like Ashoka Youth Ventures and Elevar Partners, a "bottom-of-the-pyramid" investor. "There are a lot of great things going on in Seattle, but we're scattered," she says. "It's kind of like nuclear fission. We need the container that helps foster the density that lets [social investors and entrepreneurs] interact, so they can get things off the ground."

At HUB's launch party in October, Seattle's Gore-Tex glitterati -- wealthy and outdoorsy do-gooders -- showed up in droves to quaff Finnriver pear cider and nibble on skewers of grass-fed beef at the organization's offices in Pioneer Square. HUB partners Paul Shoemaker, executive director of Social Venture Partners, and Gifford Pinchot, founder of the Bainbridge Graduate Institute, both came to support their alum. Seattle Mayor Mike McGinn also joined the 1,000 philanthropists, nonprofit representatives, and social entrepreneurs celebrating Massena's latest project. "The positive energy was beyond palpable," a breathless Shoemaker blogged.

It's unlikely that Massena will let such fluff get in the way of her life's mission: investing in underprivileged folks so they can get ahead and help build a more modern American economy.
Brendan Martin finances the New Era Windows employee co-op.

BRENDAN MARTIN
Age: 39
Vehicle: The Working World
Locations: Buenos Aires; Leon, Nicaragua; New York City

Brendan Martin grew up in Rochester, N.Y. His mother struggled after his parents' divorce, while his father, a computer-science Ph.D., built a business fortune.

Martin became fascinated by economics in high school, but he always found it odd that basic economic models appeared to view workers as costs to be minimized and eliminated. Was there a way, he wondered, to genuinely serve people who work, alongside those that represent the firm's capital?

"Our whole system is predicated on the greater fool theory -- making money on the transfer of wealth, not the creation of wealth," he says.
Martin studied economics at Wesleyan and eventually went to work on Wall Street. He wound up as a partner in theflyonthewall.com, a start-up providing information to financial institutions. His life changed in the fall of 2004, when he saw The Take, a documentary about Argentine workers taking over abandoned factories in the wake of the country's financial collapse, creating their own jobs and businesses.

His true calling could no longer be ignored. "Suddenly, there were 200 cooperatives appearing out of nowhere," he says, "and that meant I could experiment." Martin convinced the film's Canadian director to fly with him to Argentina and introduce him to the workers. He visited 10 cooperatives, gathering ideas. "As you dig into possible plans with people," he says, "the sense that it's real and can work and you might even be trustworthy begins to take root."

In 2005, Martin moved to Buenos Aires, while still working remotely for his firm. There, he eventually put over $250,000 of his own money into The Working World (TWW), a nonprofit revolving-loan fund he created to extend credit, based on a new financial model that would "maximize community wealth."

To those who think this sounds suspiciously like socialist claptrap, Martin calmly responds: "It's a way of making owners out of everybody. If you have [all the workers] invested, cooperative ownership is actually taking the logic of capitalism to the next step. In short, Martin maintains there is empirical evidence that the community benefits and that companies are better run when all employees, not just senior management, have a significant financial stake in the enterprises' well-being.

TWW does so by partnering with workers' cooperatives, helping them with their business plans, and offering other services. Martin has, for example, developed a series of smaller "just-in-time" loans, up to $20,000. In administering these, TWW loan officers stay in close touch with the cooperatives, which don't have to pay back their debt until they make a profit.

"We act like equity investors. Sounds risky, right? Ninety-eight percent pay back," Martin says. One of his biggest success stories: $15,000 in loans to people living in a squatters camp near Laferre, outside Buenos Aires, to buy a nearby plot of land and erect a factory to make work boots. The tenfold increase in production, the 40 working at the boot factory, and the income brought in has all helped to transform the village.

TWW has now made more than 600 loans, worth over $3 million, to some 100 cooperatives in Argentina and Nicaragua, ranging from metal-working to honey-gathering groups. And this year Martin came back home to set up TWW in the U.S. Among his new client-partners: New Era Windows in Chicago.

New Era is a cooperative established in June 2012. The firm's workers were in the news when they occupied the Republic Windows and Doors factory in the fall of 2008, after Bank of America cut the company's line of credit, suddenly leaving the workforce unpaid and high and dry. Martin's TWW has invested $500,000 in New Era Windows, which the workers now own.

Penta caught up with Martin while he was checking out the lighting in New Era's dusty, 60,000-square-foot factory. About 70% of the workers are Hispanic immigrants; the rest, African-American, and they are all working hard on getting the factory fired up. Martin communicates mostly in Spanish; the workers have been taking classes in business and cooperative business at The Working World's behest. Martin tells us most of them have a natural entrepreneurial instinct. When they received a bid to move the factory's equipment for $100,000, for example, the workers saved 80% of the cost by moving it themselves.

Should New Era Windows survive and prosper, Martin's social-investing experiments could make cash-strapped companies fighting for their survival re-evaluate whether bankruptcy or selling to private equity are the only ways to re-engineer an ailing firm looking to find its path to the future.
Teacher Kristin Hull is helping to build a revitalized Oakland.

**KIRSTIN HULL**

*Age: 45*  
*Vehicle: Nia Community Foundation*  
*Location: Oakland, Calif.*

Kristin Hull's dream is to help create a fair, thriving, and economically robust Oakland. Raised in the city during its Black Panther years, Hull began life on the other side of the tracks. When she was young, her parents collected food stamps. Later, before attending Tufts, she spent a year in Venezuela, becoming fluent in Spanish and laying the groundwork for her career as a bilingual teacher. She picked up her master's degree at Stanford; her Ph.D. from Berkeley emphasized "education for social change."

Hull came home to Oakland to teach, seeking out underprivileged classrooms because she knew that a child's fourth-grade teacher really matters. She instantly noticed the contrast between the schools in Oakland's affluent hills and those in the poorer flatlands. Children of CEOs attended schools that emphasized creative thinking and other skills that are the foundation for leadership and engaged citizenry. Schools in the poorer neighborhoods prepared kids for life in the factory -- at best. Most got A's for just
showing up. "Our schooling system is a key lever in reproducing racial and class inequities," Hull says. "The way we educate our children says what we want for our society."

In the winter of 1997, when Hull was 30 and on maternity leave, a friend suggested that she start a charter school to bring a high-caliber curriculum to Oakland's children. That's all it took. Hull co-founded the North Oakland Community Charter School (NOCCS), a public school that offers top-quality curriculum through a concept developed at Harvard. "I put 10 years of my whole body and soul and everything else into NOCCS," says Hull.

By this time, her family's own fortunes had changed. In 1999, her father, who had established Hull Trading, a Chicago-based futures firm, sold it to Goldman Sachs. The Hulls created a family foundation, and Kristin became one of its trustees; she helped her mother co-found the George Mark Children's House, the first children's hospice in the country.

In her family-foundation role, Hull attended philanthropy conferences; in 2007, she was exposed to the More than Mission movement, which encouraged foundations to invest 2% of their assets in direct alignment with their charitable mission. "I was both inspired and outraged," Hull recalls, pointing out that foundations get a tax break to serve the public good. "I think foundations should invest all their assets to serve their [charitable] mission."

As a result of Hull's passion, the family foundation's entire $20 million portfolio was placed in do-good impact investments, beginning by investing in community banks and fixed-income instruments. The Hulls, in short, had already pulled out of the public stock markets when the nation's private foundations, on average, lost 25.4% of their assets in 2008.

This year, Kristin Hull established the Nia Community Foundation with $5 million. It's a community organization dedicated to supporting social justice in Oakland. Five community members eventually will serve on its grants-advisory team; Hull is still mapping out the landscape to determine which for-profits and nonprofits might be potential partners on her mission.

Already, however, her foundation has made 15 investments in companies that are based in Oakland or work there. Among them: People's Community Market, a grocery store in a low-income neighborhood in west Oakland, where residents don't have access to healthful food; Solar Mosaic, a crowdfunding platform that allows people to come together and invest as little as $25 to finance solar-energy projects for nonprofits; HUB Oakland, led largely by women of color, which will foster social enterprise in Oakland; and the Awaken Café, an espresso, beer, and wine bar. She expects to be fully invested by early 2013.

A wine bar? "At Awaken Café," Hull responds, "I think about the entire value chain -- who we're hiring, what kind of food we serve, who are our suppliers, and how do they work. I like that the food is all local, and that the cafe will be a meeting space for entrepreneurs and change-makers. I'm not just operating in one system," she says. "I'm operating in a web of systems, where there are many potential strategic levers for change."

We all are in this web of systems, of course. The difference is that Kristin Hull is conscious about them -- and leverages all of her available dollars to impact the entire interlocking network.
Narendra Varma hopes that his polyculture farm will upend food systems.

NARENDRA VARMA
Age: 44
Vehicle: Community by Design
Location: Portland, Ore.

On 60 acres of forest and farmland 15 miles south of Portland, there are rows of trees loaded with figs; plums ranging from mirabelles to shiros; branches bearing galas, fujis, braeburns, and honeycrisp apples. Other trees are loaded with walnuts, chestnuts, and hazelnuts. Alongside this edible forest, hedges and hedges of mulberries, blueberries, and raspberries emerge. Between these hedges, farmers on this commercial farm have planted vegetables like rainbow chard, Tuscan and Red Russian kale, and chioggia beets. There is millet and wheat, and rotations throughout of pigs, sheep, cows, and chickens.

You get the idea. There are no acres and acres of corn or soy -- or even organic corn. This is a polyculture farm, not a monoculture agricultural machine. And that's Narendra Varma's dream for the future of farming, food, and community. "Forget about whether diversity itself is good or bad," he says. "We know it implies resilience. The future is local, and supporting a rural landscape with a greater number of smaller
farms will require new working models. I'm conducting a giant experiment." Varma's ambitious goal, in short, is to help build an economically viable and completely re-engineered regional food system.

Born in Calcutta and raised in Delhi, India, Varma attended Brown and then went to work at Microsoft. Retiring in 1998 as another member of the Microsoft-millionaire diaspora, Varma began to connect the dots between how money is invested (or not) and its effect on society. He had young children -- something that focused his mind on nutrition -- and he noted with particular interest the deleterious impact that industrial agriculture can have on ecosystems, as well as on human health.

Then he read *Dirt* by David Montgomery, a book tracing the rise and fall of civilizations to soil erosion. "That was a real eye-opener," says Varma. "I realized that the question of how to farm has not been figured out, and that we can't just emulate older farms or rely on all-organic as the solution." As a result, Varma has become a proponent of permaculture, a concept that brings together whole-scale sustainability with respect to energy, waste, water, and fields.

Varma is plowing $3.5 million into his farm through his not-for-profit limited liability company, Community by Design, as well as a still unnamed cooperative. The land was acquired by Community by Design, benefiting from a tax break because of the agricultural land use. The LLC in turn leases land to the farmers' cooperative that he is halfway to creating; the co-op's legal structure is almost in place, and he has invested in its roads, barns, and irrigation. "We want to separate land ownership from the economics of farming," he says, because it reduces the farmers' costs and risk.

Varma's biodynamic farm is essentially an agricultural-management system that views all of its land as a single, self-contained organism where animals produce the fertilizer and no chemicals are used. However, a polyculture farm requires a complex social and financial system to sustain all the creatures and complicated interactions that it encompasses. That's why Varma believes that small-scale farmers like him need to relate to one another in a different way than do industrial-size farmers.

To get economies of scale, for example, Varma argues that small farmers should share costs and spread risk by joining together in cooperatives. The co-op that he's creating will also include a large commercial kitchen and food-processing operation; the aim is to make beautiful prepared foods out of the farms' produce. One purpose is to capture the higher profit margins normally passed on to third parties further up the food chain.

This year, Varma has leased land to three farmers who produced about 60 tons of blueberries; 200 geese will turn into roast goose for the holidays. Next year come vegetables, chickens, eggs, beef, and goats. By then, the cooperative should be fully up and running and have a name, so products can be sold under its own brand. Through his family vehicle, the Manav Foundation, Varma is also offering farmers classes in permaculture and biodynamic techniques. His intensive nine-day course in "forest gardens," held in September, was sold out.

If Varma's venture proves profitable in the long run, it could help transform the economics of local farming, and, perhaps, play a role reshaping our food system.
Emily Jackson's family foundation is changing juvenile justice

EMILY TOW JACKSON
Age: 47
Vehicle: The Tow Foundation
Location: New Canaan, Conn.

Emily Tow Jackson and her parents and siblings did not set out to become juvenile-justice advocates -- nor was it something that came to them naturally.

Jackson grew up in Pound Ridge, N.Y., the youngest child of cable-TV entrepreneurs Claire and Leonard Tow. She attended Barnard, went to art school, and worked outdoors in New Zealand for a while. But then her parents asked her to come home to join the family foundation full-time. They were on the cusp of making major contributions to the Tow Foundation and needed her help.

The family agreed to focus on disadvantaged youth and families. "We came up with an area that no one person owned, where none of us had experience, and so we learned together as a board and staff. Everyone
became engaged." She also felt strongly that they had to stay local. "There was plenty of need and opportunity in our own backyard," she says. "I felt I needed to touch it and feel it myself to know whether I was doing a good job."

Jackson made direct grants -- "inch-deep, mile-wide giving" as she calls it -- to local nonprofits, like family-service organizations. But in 1997, after two years of this, she and the board reassessed what they were doing. Yes, the money was helping 15 people here and 20 people there. But what, really, were they achieving?

Jackson suggested she emulate her parents' career successes by taking a more entrepreneurial approach -- and actually ask grantees about issues that could deeply affect their futures, such as what really excited them or what did they dream about but would never request funding for? "We wanted to identify where the potential was to have impact that was possibly under the radar," Jackson adds.

She came across FSW, a large family-service agency that ran a small program working with children returning to their communities after a term in jail.

FSW's state contracts lasted only four months, but its managers felt that if they could stick with the kids for a year or 18 months, they could reduce recidivism. Jackson backed the agency's vision. Fast-forward two years. FSW's results were so good that the state agreed to extend the length of the contracts.

"That really got us excited," Jackson recalls. "It meant we could really leverage our dollars by funding demonstration projects." More importantly, the Tow Foundation had also identified a sector of the population that society was literally throwing away -- and that really needed help.

In 1999, the foundation's board and staff conducted a yearlong research-and-development project, essentially a scan of Connecticut's entire juvenile-justice system. A $25,000 grant funded the Connecticut Juvenile Justice Alliance, which partnered with three local children-advocacy groups. The unit eventually became part watchdog, part collaborator in projects, and a public source of juvenile-crime facts and data.

"It wasn't a traditional role for a foundation," acknowledges Jackson. But it was effective. The Alliance's biggest achievement was a 2008 Connecticut law that raised, from 16 to 18, the age at which juveniles in Connecticut can be imprisoned as adults. Teenagers receive therapeutic help, rather than simply being thrown in prison. Now the family is tackling New York State's juvenile system.

In this way, the Tow Foundation has morphed from a modest writer of grants affecting a small number of people, to a policy-shaping heavyweight that is literally affecting millions of young lives.