Philanthropy

The New Activist Givers

Richard C. Morais  06.01.07, 6:00 PM ET

Steward Leonard Jr., chief executive of Stew Leonard's, the famous grocery store chain in Connecticut, was with his family in the Caribbean when his 2-year-old son, Stewie, drowned in the pool. "You really are emotionally tired after such a tragedy, and you don't know what to do with this grief you have," says Leonard. "My wife and I said, 'Let's create a foundation and see if we can help others.' The foundation became a way of healing for the entire family. It still is."

The Stew Leonard III Children's Charities have, among other things, financed swimming lessons for tens of thousands of disadvantaged children, produced an award-winning children's book called Stewie the Duck Learns to Swim, and have found countless other ways to help families that have similarly suffered a child's drowning.

The Leonards are part of the growing Give Now movement spearheaded by activist organizations such as the Wealth & Giving Forum. "Traditional philanthropy was defined as waiting until you were really old and very rich and writing a lot of checks," says Daniel Schley, chief executive of Foundation Source, a backroom-services specialist that helps family foundations become more efficient. "But the real power, drive and momentum in modern philanthropy is coming from people in their 40s and 50s who generated a great deal of wealth at an early age and have decided to leverage that wealth in philanthropy."

These young activists are mostly coming up through the high-finance and tech industries. They are highly engaged in their causes, investing not just money but also time, energy and oversight. By our conservative estimate, these activist philanthropists will be pouring between $1.9 trillion and $2.6 trillion into philanthropy over the 20 years that began a decade ago, roughly 35% of the total giving during this period. But the results-focused nature of this philanthropic capital will make it far more important than the charitable giving seen during the last century.

Exclude Warren Buffett, and 21 Americans, according to The Chronicle of Philanthropy, each gave at least $100 million to charities in 2006. The top 60 donors gave a median $60 million each, compared with the $33 million median given the previous year. At the other end, America's 71,000 grant-making foundations disbursed $41 billion, a 12% increase over 2005, and an inflation-adjusted 228% increase over what was disbursed in 1996.

Behind this impressive growth is a new wave in philanthropy that is not only activist but also mindful of "return on investment." Imagine a 1960s flower-power protest organized by flinty-eyed hedge fund managers. They first showed up in numbers during the dot-com boom of the 1990s, and many of them believed their "venture philanthropy" or "social entrepreneurialism," were inventions of the "New Economy."

In reality, philanthropy's first industrializing phase took place in the late 19th century and early 20th centuries when the likes of Carnegie, Mellon and Rockefeller used their hard-headed business skills to tackle society's most severe problems. John D. Rockefeller's Sanitary Commission of 1909 and the Rockefeller Foundation he created in 1913 pretty much eradicated hookworm in America and laid the groundwork for the nation's public health system.

But there is a difference. "Rockefeller viewed his philanthropy through the lens of his business, and it really mirrored the Industrial Revolution. It was highly centralized, it was top down, it was based on experts and it was big picture," says Jacqueline Novogratz, founder of the Acumen Fund, which invests in companies offering services to the world's poor.

"Wealth today has been created by a world view dominated by fast-moving networks, open information, bottom-up entrepreneurialism," she says. "So it's less likely to see [philanthropists like Bill Gates] going in at the top of a problem, but
more likely for them to find entrepreneurs they can back, and business models they can use, from the bottom-up of the market.”

Mario Morino and his Venture Partner Philanthropy is a prime example of this new bottom-up activism at work. Morino built software firms—including Legent, sold to Computer Associates for $1.8 billion—and cashed out in the mid-1990s. Raised in Rust Belt Cleveland and grateful for the education he received, he immediately created the Morino Foundation as an educational philanthropy.

His rambling mission statement written in 1995 talks about using "network interactive communications" in the "Knowledge Age" to "empower" the disadvantaged. It reflects the dot-com hubris of the time, and Morino inevitably got a reality check. A teacher once stood up at a conference and bluntly told Morino and the other superhighway do-gooders that her classroom didn't even have a phone jack. Another added that she taught out of a garage.

But Morino is intensely earnest, and in one 18-month period, he interviewed 700 philanthropic sources across the country. The software executive noticed that deeply committed and competent community leaders periodically emerged out of the “volunteer” armies that were the backbone of America’s charity work. These charismatics were the nonprofit equivalent of entrepreneurs, and they tackled the hardest issues in the toughest neighborhoods and built dynamic charities in the $500,000 to $2 million range. But these natural leaders with insider know-how did not have the networks, resources or "managerial discipline" to lift their charitable institutions to the next level.

In 1999, Morino visited General Atlantic Partners, the top-drawer private equity group, and suddenly had an "epiphany" to bring the management, capacity and brand-building techniques of private equity to the philanthropic sector.

"Grant making is generally program-based, often with tight restrictions on how the grants can be used for overhead, so the ability for a nonprofit to take that money to improve itself managerially was very low or didn't exist," says Morino. "Therein lies one of the fundamental problems [of the philanthropic industry]."

So Morino set out to fill this hole by personally spending $9 million to establish Venture Philanthropy Partners with two partners, and then raising a $30 million fund with 26 high-profile investors, including Jean and Steve Case of AOL fame. Some of these investors take up board seats on VPP's investments; others make their high-powered Rolodexes available to the nonprofits. The mission: "Alter the status quo for children in need of opportunity" and "create a different, innovative approach to philanthropy."

VPP committed its resources to 12 charities in the Washington, D.C., area, collectively serving 47,000 children. VPP's chief executive oversees the private equity approach: top-to-bottom reviews of the hand-picked charity; identification of expansion opportunities and management goals; and clear targets backed by quarterly reviews to ensure benchmarks are getting hit.

VPP's approach is slowly paying off. One of its brightest stars is See Forever Foundation, which set up an inner-city charter school that cases the juvenile courts for kids in trouble, and then stands over them (until 7:15 p.m. at one school, and on Saturdays at another). Expanding further with VPP's backing, See Forever provides tiny classes, hot meals, emergency housing, counseling and after-school tutoring. With 275 kids under its wing at the moment, See Forever's inner-city "no-hopers" have an 85% graduation rate.

Mary's Center for Child and Maternal Health is another VPP investment. Nurse Mary Gomez originally started her charity in 1988 as a center where undocumented immigrants from Central America, too afraid to visit hospitals, could safely get natal care and pediatric services. Mary's Center has since developed into a cheery, one-stop mecca for any Washington-area immigrant trying to make his way in America. It offers everything from HIV/AIDS testing to English lessons, as well as delivering babies, teaching teens family planning and assisting its immigrant clients in the myriad of government offices they have to deal with.

"Many of our clients come from cultures where it is acceptable to hit children," explains Gomez. "One of the things we teach them is that you can't do that in America. We had one case where a woman had her children taken from her by Child Services just because she didn't understand the rules or what was going on."

By 2004, however, Gomez and her four-member management team had hit a ceiling. They had $8 million in revenue; a staff of 111 served 11,000 clients. VPP concluded its rigorous vetting process and began sinking management time and resources into Mary's Center. Two years later, Mary's revenues are up 50%, staff is at 136 and 14,000 clients are being served. More important, a new 10-person senior management team, including an experienced chief operating officer and a development office, are busy opening two new sites in Virginia and Maryland.

In the halls, Gomez warmly greets a newly hired site manager she's never met before. "See, I am learning to delegate," she says.
VPP, after a period of building its own capacity and reflecting on lessons learned, is raising a second, $50 million fund. Morino has personally invested $25 million in philanthropic causes so far, and expects to sink another $9 million into VPP. His goal? "Bottom line, if we could help sway the needle from loyalty-based giving to merit-based giving--and [as a result] there was more effective allocation of public funding--that would be a huge accomplishment," he says.

Of course, the octogenarian check-writers remain a vital source of charitable funds as America ages. Paul Schervish and John Havens at Boston College's Center on Wealth and Philanthropy say $45 trillion will have changed hands through estate settlements in the first half of this century, the largest intergenerational transfer of wealth in U.S. history.

But this other in-your-face crowd is the fast-rising group to watch.

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