**Creating Space for Impact**

By Gayle Jennings-O’Byrne

*Insanity: doing the same thing over and over again and expecting different results.*
— Albert Einstein

Einstein’s definition of insanity articulates a powerful concept, but all too many of us, myself included, fall into such behavior patterns. The stakeholders and players in the philanthropy, social change, and nonprofit sector are no different. We repeat ourselves, fund the same programs, and use the same business models, talent, and skillsets to address social problems. But the social issues, root causes, and current systems are intricately complex and the outcomes so often fall short of expectations.

Let’s agree to retire such behavior, especially as we work with people who are planning retirement and seeking to make charitable gifts that make a difference.

For an advisor with a client who wants to create a socially impactful donation or bequest, retirement planning or early retirement is a good time to create space for such a project. These are times when some people contemplate life’s purpose and legacy. It’s a time to question outcomes, raise expectations, and tackle social issues with innovative approaches that can lead to real results.

Like other parts of a client’s portfolio, the giving portfolio benefits from fresh analysis and assessment. Traditional factors are applicable in the philanthropic portfolio and include alignment with goals, portfolio diversification, performance, taxes, expenses, and asset allocation.

But a rigorous review of a philanthropic portfolio goes beyond investments themselves because the goal is social improvement. By extension, such a review should include a rigorous examination of the nonprofit your client is funding. The enormity of society’s needs demands a laser focus on those organizations’ results, outcomes, and innovations, and how they learn from failures.

### Snapshot of Global Poverty

How critical are the world’s social needs? As an example, consider the extent of poverty as shown in the following statistics:

- 1.3 billion people live in extreme poverty—on less than $1.25 a day
- 1 billion children live in poverty
- 805 million people worldwide do not have enough to eat
- One-fourth of all humans live without electricity
- $60 billion invested annually would end extreme global poverty
- Only four in 10 young women and men ages 15–24 were employed in 2015, compared with five in 10 in 1991

In October 2015, the World Bank reported that the number of people living in extreme poverty was set to fall to below 10 percent of the global population for 2015. The World Bank projected that the number of people living in poverty would fall to 702 million people, or about 9.6 percent of the global population. That compares to 2012, when 902 million people or 12.8 percent of the population lived below the poverty line.

The 2015 numbers are projections only, due to a lag in data collection from many developing countries, but they herald a positive trend. Indeed, the United Nations’ Millennium Development target of reducing extreme poverty rates by half was met five years ahead of its 2015 deadline.

### Mixed Results Closer to Home

A U.S. Census Bureau study, “Income and Poverty in the United States: 2014,” reported that, for a fourth consecutive year, the total number of people living in poverty across the nation was not statistically different from the previous year. Consider the following:

- 14.8 percent or 46.7 million of Americans live in poverty
- Roughly 20 million Americans live in extreme poverty, defined as having about $10,000 a year for a family of four
- Approximately 15.5 million children in the United States—21 percent of all children—live in families with incomes below the federal poverty level ($24,250 for a family of four)
- 10 percent of people age 65 and older live below the poverty level

Poverty creates a cascade of community needs. In a 2015 survey reported by the Nonprofit Finance Fund, nonprofit leaders were asked to identify three critical community needs. Thirty-five percent of respondents identified affordable housing as a critical need; other areas identified included youth development programs (26 percent), job availability (23 percent), access to health care (21 percent), and access to strong, well-performing schools.
(19 percent). In the same study, respondents also reported that demand for their services was increasing, yet more than half (52 percent) said they are unable to meet demand.

Creating Financial Space and Impact for Social Change

Today the war on poverty has several bright spots. For example, in 2015, the left-leaning Brookings Institution and the right-leaning American Enterprise Institute joined forces to study the issue. The resulting report is an excellent source of plausible, innovative strategies.12

There is ample room for investment professionals and funders to help achieve greater results. The social need is so vast and I’ve highlighted only one area—poverty. However, because we are discussing improving conditions for our neighbors and communities, it is incumbent upon funders and the investment community to lead the effort.

Funders and their investment advisors are in a critical position to affect change. Investment managers and advisors have deep knowledge and resources to help their clients raise expectations, instill accountability, and take action when the outcomes and performance goals aren’t met.

The social-good sector needs funders and investors to bring the rigor demanded of for-profits to the nonprofit sector. They can do this by breaking from business-as-usual and insisting that nonprofits incorporate the following practices:

- Invest in talent, technology, infrastructure
- Test, pilot, innovate
- Expand or discontinue some services/products
- Measure results
- Reward performance

Advisors and investment managers are in an ideal position to collaborate with clients to help them understand the need for such critical business investments in order to track results and improve nonprofits’ ability to achieve social impact. Clients need to work hand-in-hand with their chosen nonprofits to see that they have adequate funding for such investments. Advisors can play a key role by helping clients focus on the key areas described below.

**Competition**

The nonprofit sector accounts for a large segment of the U.S. gross domestic product (GDP), wages and salaries paid, and people employed. Nonprofits provided 5.4 percent of GDP, or $887.3 billion, to the U.S. economy in 2012.13 There are approximately 1.5 million nonprofit organizations and a rapidly growing list of for-profit social enterprises.

The many players, the mixed performance, the redundant programs and distribution channels, and other factors suggest that this sector could benefit from some consolidation, but the nonprofit sector historically has been immune to such market activity. As a former mergers and acquisitions (M&A) banker, I have witnessed firsthand the synergies and benefits of such deals. I believe the nonprofit sector could benefit from some M&A activity, but I also believe that the following forces work to prevent such activity:

- Funders that are “in love” with certain charities or programs
- Leadership and boards of directors not having the same motivation that corporate shareholders have to deliver results for shareholders

- Lack of a marketplace, i.e., bankers sourcing deals, a pipeline of buyers/sellers, pricing/financing, etc.
- Stakeholders that don’t have the voice or other mechanisms to demand better performance

**Effectiveness/Impact**

In business, we have moved into a period of hyper accountability, governance, and empirical performance measures and evaluation—metrics, outcomes, and impact—yet funders and nonprofits struggle with this central issue. The Nonprofit Finance Fund compiled data in 2015 that show little engagement between funders and nonprofits about outcomes (see figures 1 and 2). One important way for funders to ensure their dollars have more impact is for them to engage with the nonprofits they are funding in order to make these organizations more effective.

Goals and results must be front and center in the construction of philanthropic investments and how clients engage with an organization’s leadership. Metrics are key, and as a sector, the universe of metrics is quickly progressing.

For a comprehensive listing of tools and resources for measuring nonprofit impact, the Foundation Center’s Tools and Resources for Assessing Social Impact (TRASI) is a great starting point.14 Also

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**Figure 1: Open Dialogue with Funders**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>49%</td>
<td>Expanding programs</td>
</tr>
<tr>
<td>31%</td>
<td>General operating support</td>
</tr>
<tr>
<td>23%</td>
<td>Measuring program outcomes</td>
</tr>
<tr>
<td>21%</td>
<td>Multi-year funding</td>
</tr>
<tr>
<td>14%</td>
<td>No open dialogue about these topics</td>
</tr>
<tr>
<td>14%</td>
<td>Acquiring or renovating a facility</td>
</tr>
<tr>
<td>6%</td>
<td>Developing reserves for operating needs</td>
</tr>
<tr>
<td>1%</td>
<td>Paying off loans</td>
</tr>
</tbody>
</table>

Responses not displayed above: 17% organizational change or adaption, 8% working capital (cash-flow needs), 6% flexible capital for organizational change/growth, 4% developing reserves for long-term facility needs, 3% other

Here are things you can do today to promote this type of change:

- Include a portfolio review of the giving investments as part of retirement planning.
- Design a roadmap and strategy for identifying, measuring, and engaging promising social models.
- Don’t go it alone—enlist your firm’s philanthropic resources, engage philanthropic advisors/consultants, participate in sector activities.
- Participate in family office retreats and other meetings to help families and investment officers
  » rethink/reimagine their role,
  » establish new expectations,
  » structure and negotiate new outcomes and program goals as part of investment,
  » and conduct robust due diligence to mitigate investment risk.

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Financial advisors and investment managers have a crucial role to play in helping to drive social change. They can do this by helping clients focus on the highest-return social investments to get a different kind of optimal return—high-impact social change—for their philanthropic dollars.

But successful high-impact philanthropic investing requires nonprofit organizations

**Figure 2: Rigor in Reporting and Outcome Data**

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<th>State government</th>
<th>Federal government</th>
<th>Foundation</th>
<th>Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>15%</td>
<td>9%</td>
<td>7%</td>
<td>15%</td>
<td>67%</td>
</tr>
<tr>
<td>Less than half</td>
<td>25%</td>
<td>49%</td>
<td>47%</td>
<td>65%</td>
<td>30%</td>
</tr>
<tr>
<td>Half or more</td>
<td>43%</td>
<td>36%</td>
<td>46%</td>
<td>20%</td>
<td>4%</td>
</tr>
<tr>
<td>All</td>
<td>21%</td>
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**Exit Strategy**

When seeking social change, funders also should build in an exit strategy. This requires being realistic about the timeframe needed to change human behavior, systems, markets, and policy, and it can be accomplished by investing and funding in multi-year increments. Structuring an exit strategy with nonprofits or for-profit social enterprises will help those organizations’ management and staff focus on delivering results, reaching goals, and building sustainable infrastructure and funding that is not dependent on the current funders.

**Stop the Insanity, Retire Today**

Retiring our repetitive, ineffective behavior and investments is a social and economic imperative. By continuing to support poorly performing organizations, models, and programs, we are diverting critical investments and thwarting the promise of high-performing models or future innovation. In other words, building higher expectations and accountability into our social investments will drive higher levels of impact and results.

**Innovation**

To prompt the type and level of social change needed to make real differences, nonprofits must invest in new ideas and new approaches. They need to be willing to support research, innovation, and pilot programs. They need to allow space for failure but, more importantly, allow for lessons to be learned from trying new approaches or programs. Funders can provide critical support for this crucial innovation.

**Conclusion**

Financial advisors and investment managers have a crucial role to play in helping to drive social change. They can do this by helping clients focus on the highest-return social investments to get a different kind of optimal return—high-impact social change—for their philanthropic dollars.

But successful high-impact philanthropic investing requires nonprofit organizations...
that are up to the task of taking on new approaches, great rigor, and the burden of accountability. Financial advisors and investment managers can foster just these types of organizations—and help weed out poorly performing programs—by raising due-diligence standards for the targets of clients’ giving plans. By demanding excellence and accountability from the organizations that receive charitable dollars, advisors and clients improve the social return on investment.

Gayle Jennings-O’Byrne is chief executive officer of The Prometheus Exchange, a convening and advisory organization for high-net-worth investors committed to innovation, creativity, and economic growth and equality, where she works to amplify social change. Previously, she was a vice president at JPMorgan Chase Global Philanthropy as well as a mergers and acquisitions banker in the firm’s investment bank. She earned a BS in economics from The Wharton School and an MBA from the University of Michigan Ross School of Business. Contact her at letstalk@prometheusexchange.com.

Endnotes

15. See https://iris.thegiin.org/.
16. See https://thegiin.org/.
17. See https://www.fidelitycharitable.org/.