

THE PSYCHOLOGY OF PHILANTHROPY AND COMMUNITY CHANGE

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What does it take to get foundations and individual donors more involved in community change? That's the question we'll explore today, using psychology as the focal point for five strategies we'll discuss. There are other answers we won't discuss, such as changing tax laws or creating public communication campaigns. And we'll look at psychology not just as a source of strategic interventions, but as a *context* for thinking about philanthropy and its role in community change - taking our lead from recent business research.

A new Harvard Business School study suggests that the single most important characteristic shared by America's leading business figures of the last 100 years is *contextual intelligence* - the ability to understand and capitalize on the sweeping trends influencing the marketplace of their time. The Leadership Initiative database of researchers Nitin Nohria and Tony Mayo includes everybody from Henry Ford to Jack Welch, who built GE by getting it largely out of the declining industrial sector, and into the services and banking businesses.

A second and related set of contextual forces are also increasingly recognized by business researchers and business leaders as fundamental to success, particularly when organizations are creating change strategically. These are the human dynamics of change, made understandable by psychological concepts of reward, resistance and the need to feel ownership and involvement in making changes that will profoundly affect a person's life and work.

MIT's Michael Hammer, the inventor of re-engineering, perhaps the most popular transformational change intervention of the 1990s, has said that two-thirds of all re-engineering interventions failed - mostly due to staff resistance. Human beings' innate resistance to change is "the most perplexing, annoying, distressing and confusing part" of re-engineering, says Hammer. Moreover, resistance to change is "natural and inevitable. To think that resistance won't occur or to view those who exhibit its symptoms as difficult or retrograde is a fatal mistake ... The real cause of re-engineering failures is not the resistance itself but management's failure to deal with it."

At our Institute, we see these psychological concepts as providing important contextual intelligence for understanding and guiding the complex processes of change in nonprofit organizations and communities - a topic we've been studying for the last 44 years. And we see psychology as relevant to philanthropy not just for defining strategy, but also for understanding the societal role of philanthropy from a public policy standpoint.

A central mission of philanthropy is to help create change in the community. Since their financial resources are small compared with government's, both foundations and individual donors stimulate change through the *leverage* that comes because they can use those resources with few constraints, and, especially for foundations, through the ability to *convene* the community for planning or action-taking. Perception and persuasion are bound up in both the leverage and convening processes, so philanthropic strategy is inherently psychological, from the era of Rockefeller and Carnegie to today.

Moreover, philanthropy is psychological because foundations and individual donors can set any bottom line they want. Donor intent and its psychological aspects are more critical than for government or the private sector - or even for the nonprofit sector, which is mission driven in a very different way. The independence of philanthropy, by the way, is also a main reason why improving philanthropic practice can be so difficult - one philanthropist need never change because another one has.

Katharine Fulton and Andrew Blau of the Global Business Network identify two trends that will shape the future of philanthropy: first, its continued growth and diversification, because of the coming transfer of wealth, and second, growing internal and external pressure to demonstrate that philanthropy is successful, and makes a difference. Recent economic conditions that required foundations to cut their giving have added to this pressure. Improving philanthropic practice using psychological strategies is all the more important because of these trends.

However, philanthropy as a field is just at the beginning of looking at its human side in a more thoughtful and strategic way. Jed Emerson, in his recent book, *The Blended Value Map*, has a footnote at the beginning that says he deliberately excluded matters psychological from his classification system for looking at how economic and social values intertwine. In a recent conversation, Jed agreed that his concepts could be enriched by looking at the psychological side.

There are some philanthropic observers who have already applied psychological approaches. For example, the California Community Foundation's Joe Lumarda, in his book with Frank Ellsworth, *From Grantmaker to Leader*, uses psychologist Abraham Maslow's hierarchy of needs to understand the psychology of donors.

In our work, we're finding that behavioral sciences have potential for increasing the involvement of both foundations and individual donors in community change. Today we'll talk about the psychological aspects of five interventions:

- 1 - Helping community stakeholders get more involved in guiding the work of foundations***
- 2 - Helping individual donors understand the value of supporting nonprofit capacity building***
- 3 - Helping smaller foundations understand the value of building their own capacity***
- 4 - Helping foundations develop and use collaboration approaches to increase their impact***
- 5 - Helping foundations deal with the human side of change for their own staff***

Each intervention comes not only out of our recent research, but also discussions in the field of philanthropy about how to increase foundation and donor impact.

1 - Helping community stakeholders get more involved in guiding the work of foundations

Increasingly, foundations are recognizing that getting people from the community to come to the table and help define philanthropic strategy can lead to better outcomes, as well as building credibility for foundations and their work. Corporations around the world already have recognized this. For the last three years, we've been looking at stakeholder interactions from a psychological perspective in the US and eight other countries, as part of a project for the International Network on Strategic Philanthropy. We've found some interesting examples:

* the *Nike Foundation* created a national youth philanthropy program, to teach kids about grantmaking and giving them actual opportunities to give out grants. Nike wanted a youth-driven evaluation design for this program, too, which was created by a group of kids working at the Boys & Girl's Club in the West San Gabriel Valley here in L.A. The psychological advantage was clear - not only was evaluation expressed in terms that youth carrying out the evaluation strategies could understand, but they also could see the photos of the youth who designed the program on the website that communicated it to them.

* in Los Angeles, the *Liberty Hill Foundation* has a long tradition of having grassroots community representatives share equal responsibility for grantmaking with foundation trustees; this unusual degree of stakeholder involvement influences everything else about how the foundation operates and how it is perceived in the community. For example, at a recent Liberty Hill networking event, it was difficult to tell who were the grantees, community advisors, foundation staff and trustees - and that's the way the Foundation wants it!

2 - Helping individual donors understand the value of supporting nonprofit capacity building

We've just finished a research study, interviewing 34 donors and their trusted advisers across the country. We asked them how individual donors think about nonprofit capacity building - providing grant support or direct services to help nonprofits grow stronger and better able to achieve their missions, through staff training, board development, better computer technology, and so forth. Foundations have been doing a lot of work in nonprofit capacity building over the last 15 years, but until our research no one had looked at what individual donors were doing.

We found that many donors have actually done capacity-building grantmaking, but that they never use this term for it, don't much like the term "capacity building," and they know nothing about, and really don't care about, what foundations are doing in this same realm. We also found that:

- * because donors often resist paying overhead when they give money to nonprofits, capacity building is hard to sell because it doesn't immediately increase services
- * some donors are hesitant to fund capacity building because they erroneously fear that money given for this purpose won't be tax deductible
- * donors are reluctant to pay for any kind of education services for themselves
- * to encourage them to do more capacity building funding, donors want guidance and testimonials from their peers about the success of this approach

Just to give one example: a long-time philanthropist had given money for several years to an AIDS prevention education organization, based in San Francisco but working in Africa, and run by an

Episcopal priest. The priest's wife, a nursing professional, served as secretary. When it became clear that the nonprofit was struggling and needed to expand, the philanthropist gave a \$50,000 grant so the nonprofit could hire its first paid secretary and rent office space. Within the next year, the nonprofit received a \$1 million grant from the Gates Foundation that transformed the organization's ability to provide its educational services. Thus an established donor relationship facilitated the capacity-building opportunity - but that term was never used by any of the parties to this grant!

3 - Helping smaller foundations understand the value of building their own capacity

We did a study of how small, unstaffed or minimally staffed foundations in the U.S. deal with capacity building for themselves - using either resources from philanthropy or from the larger nonprofit community to build their own strength. Our 16 interviewees identified a number of reasons why internal capacity building is difficult to encourage, such as:

- * foundation donors, staff and trustees often are resistant to participating in capacity building experiences because they feel uncomfortable talking about their own challenges while in the same room with staff of nonprofits they might give money to
- * they are suspicious of the "jargon around capacity building" just as much as individual donors are

In addition to these psychological factors, we also found that in many cases, small foundations simply don't know about what resources for capacity building are available to them, and have scant energy available to find out. We're now looking at what might be done to address both the psychological and structural factors in two California communities.

4 - Helping foundations develop and use collaboration approaches to increase their impact

We also just did a study of approaches to collaboration for foundations. We found, for instance, that the Annie E. Casey Foundation is using a heavily psychological approach in its 11 Making Connections communities, such as Oakland. Casey has learned important lessons from its New Futures initiative in the late 1980's, to which there was a lot of community resistance. In its very insightful self-analysis, *The Path of Most Resistance*, Casey outlined how this happened and what could be done differently.

Casey now enters into a community now in a very different way, staying in the background, and acting largely as an outside observer. It provides funding not directly but through a third party, such as the East Bay Community Foundation in Oakland. This approach also was used when Casey helped coordinate a recent meeting of foundations in Canada, to talk about neighborhood based philanthropy in both countries. Its quiet example helped create a spirit of collaboration among the Canadian participants.

Collaboration approaches like this also pay careful attention to the power differentials between the large and small foundations. Such differences can create potentially uncomfortable relationships, as famously characterized by Woody Allen: "And the lion and the lamb shall lie down together, but the lamb won't get much sleep."

Such approaches also help to address the difficulties created when bringing foundation cultures into conflict - for instance, between a hands off vs. a directive style. To succeed, one has to build slowly

to get trust, and strong leadership is needed. Two of the best examples of such sensitive collaborations are the Rochester Effectiveness Partnership in upstate New York, and Los Angeles Urban Funders in our own area, which many of you know.

5 - Helping foundations deal with the human side of change for their own staff

I was asked to write a paper on this subject for a national meeting of senior foundation executives, the Chief Program Executives group, looking at what's happening as the result of the recent economic downturn and its impact on philanthropy, including staff layoffs and cutbacks in giving almost unparalleled in the history of institutional philanthropy. I suggested bringing to the table some interventions that might help - making stress management seminars or self-help support groups available for foundation staff, setting up a staff committee to formulate a plan for addressing these "human by-products of change," and getting outside consultation on the subject when appropriate. The point is not to turn foundation conference rooms into group therapy settings, but to include these human factors within the foundation as important subjects for attention, ideally by getting staff themselves to provide input and help shape a response.

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As for the future - we are now developing a study of transformational change in foundations. This will include looking at strategic process, outcomes, and human dynamics for several large national foundations that have in the last five years engaged in a process of transformational and profound change, involving not just operations but basic values. Casey, Knight, and Northwest are the initial sample we're thinking of studying, foundations we've had the chance to observe for some years.

Such change is urgently needed, because of the current problems of funding, increased need for service increases, and other factors no nonprofit or community can ignore. Our Institute just completed a research study, in partnership with the California Association of Nonprofits, looking at safety net nonprofits throughout California. Our more than 800 respondents told us, among other things, that 41% of them had less revenue this year than last year, and that the average funding decrease was 22.5%. This has resulted in a real crisis for many nonprofits, as this one quotation from our study makes clear:

"Running our agency with fewer staff while maintaining the quality and quantity of our services has been challenging. While the economic downturn continues, so do the funding cuts. The worst in the government funding cuts is yet to come, and it is a challenge to make up for that funding from private, corporate and foundation funds. Many corporations and foundations are more cautious in their funding because the economic downturn greatly affected their giving abilities. Private donors are more cautious too. It is an extremely difficult time in which the need is increasing while the support is decreasing."

But our study also identified many innovative approaches nonprofits and foundations are using to cope with these circumstances. Just as one example, the Humboldt Area Foundation's "Canary in the Mine" project involves monthly monitoring of requests for services at eight food banks for poor people in their rural area of Northern California. This service monitoring gives an early warning of increased requests for all other types of services for poor people, helping other nonprofits to get ready psychologically as well as practically, and helping the Foundation pro-actively shape its own

funding, then work together with local nonprofits to meet suddenly-rising needs. As our work continues, we hope to identify many more strategies for philanthropic activity that blend the psychological and the practical, so that foundations and donors can contribute the most possible to community change.